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Our National Security

By ALF M. LANDON*
Former Republican Candidate for President

Ex-Gov. Landon warns against emotional propaganda that would lead us to install immediately compulsory military service. Expresses doubt camp training for youth is beneficial and points out universal military training has caused downfall of democracies and has not promoted peace.

Most Americans today are interested in the elemental things of a place to sleep—something to wear—and something to eat. Soaring prices of food, clothing and housing are of immediate concern to most of us. But important as the elemental problem of a place to sleep, something to wear, and something to eat are to many of us, there is another even more vital elemental problem that we must not lose sight of—our national security. That is particularly true as the Big Four in the London

Alf M. Landon

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*Address delivered by Mr. Landon at the Kiwanis Club, Chicago, Ill., Dec. 9, 1947.

The Steel Industry Outlook

By WILFRED SYKES*
President Inland Steel Co.

Steel company executive, in calling attention to present abnormal demand for steel products, holds industry, though bound to fluctuate in output and demand, will grow in proportion to population. Says steel will continue to be superior for construction purposes, and decries fear of depletion of ore or coal supply. Contends steel supply will soon balance demand, and argues increased steel production facilities are impractical because of labor shortages. Sees present steel demand at maximum point, and warns against creating excess producing capacity that may not be used.

I find that I was supposed to talk about the prospects of the steel industry, but I think you people know as much about the prospects of the steel industry as I do. I have never been able to predict exactly what will happen three months ahead in that industry, but we have certain patterns that we have followed pretty consistently. It has always been a prince or a pauper of an industry. A good deal of the time it has been a pauper, unfortunately. At the present time it is a prince. How long it will continue in that status, I don't know.

Wilfred Sykes

What I want to talk to you about today is something about what makes up the steel industry—what is it. Steel is one of the fundamental industries in the United States, on which our great productivity has been built. Without an abundant supply of steel we could not have developed this

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*Stenographic transcript of address by Mr. Sykes before the Association of Customers' Brokers, New York City, Dec. 4, 1947.

Savings Bonds Not a Detriment to Savings Institutions

By WILLIAM C. HANSON
Director, Investors Advisory Institute, New York

Mr. Hanson denies private savings institutions, in fostering sales of Savings Bonds, are sacrificing themselves and helping State take over their functions. Says Savings Bonds promotion by banks creates good-will and helps their business, and that sales program has made millions of small capitalists. Stresses importance of Savings Bonds in combating inflation and points out value of stable dollar to banking and insurance institutions. Sees need for converting commercial bank government holdings into savings bonds.

A lengthy article in a recent issue of the "Chronicle," issue of Oct. 9, cover page, signed by a Professor of Economics, argues that private savings institutions which sell United States Savings Bonds are "unconsciously or misguidedly sacrificing themselves and helping the State take over their functions" and are "letting government impose debt reduction and deflation on them in the name of thrift and patriotism."

William C. Hanson

Certain fallacies in this line of reasoning suggest that the author of it was not in close touch with the bond program and that he was writing theoretically when he condemned the sale of Savings Bonds by private savings institutions.

To get the proper perspective on the Treasury's bond program, and thus to judge it correctly, one must distinguish between its overall, ultimate objectives on the one

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EDITORIAL

As We See It

More False Assumptions

Last week in these columns an analysis was presented of a number of false assumptions upon which much of our current domestic policies appear to rest. We shall now proceed to a similar examination of that part of our foreign policies which may quite accurately be termed political bribery.

Obviously, beyond that which can be defended as purely humanitarian assistance to other human beings who are in distress, our entire foreign "recovery" program rests upon two broad and fundamental assumptions. One of them is that unless nurtured by billions of dollars worth of our goods and services anything remotely resembling democracy in Europe will quickly disappear, submerged beneath a torrent of totalitarianism advancing from the East. The other is that somehow we may, with almost in-

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PICTURES taken at the Annual Meeting of the Security Traders Association of New York appear in Pictorial Section.

What Will They Buy?

An Analysis and Forecast of Sales of Consumer Goods

By WILLIAM H. LOUGH

President, TradeWays, Incorporated

Economic analyst, pointing out inflation distorts consumers' spending, sees new pattern of consumer demands in making. Says spendings per person for food, liquor and tobacco have been rising since early 30s, and have filled vacuum left by shortages of autos and household appliances. Holds postwar boom is at top, but with absence of severe labor troubles or disruption in domestic or international affairs, a 10% decline in consumption expenditures is worst contingency in prospect. Forecasts changes in pattern of consumption and end of eager demand for some products.

At this writing sales figured in current dollars are still rising at a rate that appears to be accelerating. Chart I shows the remarkable gains from 1939 on through September, 1947. On its face the chart makes an inspiring picture — with all its curves marching majestically upward and onward, and no end in sight. Especially heartening to manufacturers of home furnishings and appliances, musical instruments, automobiles and other durables is the widening spread of their segment of consumers' outlays. Savings, however, do not appear to be strongly resistant to the pressure for larger expenditures. There is no good reason, to be sure, why they should continue at their abnormal wartime level. Yet their tendency to contract is not reassuring. Furthermore, the Department of Commerce estimates, shown in the chart, are open to doubt. Estimates by the Securities and Exchange Commission of liquid savings by individuals come to only $2.6 billions in the first half of 1947 against $14.5 billions in all of 1946 and $10.6 billions in all of 1941. Though the two estimates are not strictly comparable, they usually run roughly parallel. If SEC is nearer right, as it probably is, personal savings are uncomfortably close to the vanishing point.

William H. Lough

Inflation Distorts Consumers' Spendings

The chief explanation of the phenomenal rise in total consumption expenditures and declining tendency in savings is obvious to every one. It can be stated in one ominous word: **Inflation.**

It is now a commonplace, too, that inflation works unevenly. In the present situation food prices—and clothing prices to a somewhat lesser degree—have gone up faster and higher than other prices. Consequently, food and clothing take a much larger proportion of consumers' dollars than they took in prewar days. The shares available for other consumers' goods are being relentlessly squeezed into smaller proportions. Inflation veils the process but cannot alter it.

The foregoing statement is unquestionably true so far as it goes but is not the whole truth. Long-term trends toward larger expenditures for food and for certain other products are also operating beneath the surface. Moreover these sweeping generalizations have little practical value until they are translated into figures—specifically, into dollars-and-cents

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Capital Needs of an Expanding Economy

By MURRAY SHIELDS*

Vice-President and Economist, Bank of the Manhattan Company

Holding capital needs are at record levels and unless these needs are supplied, present business activity cannot be maintained, economist contends money is not as plentiful as it was. Proposes Federal Reserve renounce obligation to hold down interest rates and Government bond yields, and recommends Foreign Rehabilitation be financed through private credits. Urges tax exemption for savings.

One of the urgent problems faced by American business is an inadequate supply of current savings in relation to the need for new capital funds.

The demand for long- and short-term funds is at a peacetime high. Business investment in new equipment, plus all non-residential construction, is close to $25 billions per annum and substantial amounts of working capital are needed as inventories and receivables reflect the rise in prices. And consumers are spending about the same amount for new housing and durable goods, a large part of which must be financed through mortgages for consumer credit.

Murray Shields

The need for new production facilities is urgent. After 15 years of under-construction and undermaintenance of plant and residential facilities there is a great void which must be filled if our new families are to be adequately housed and if our industry is to supply the goods needed for expanding markets. To the vast demand for making up the ground lost during the depression and the war must be added the requirements for material aid in the reconstruction of the war-torn areas. It is clear that we cannot meet our own demands and those of a large part of the world as well without a substantial expansion of productive capacity. And it must be remembered that shorter work days, shorter work weeks and longer vacations make it necessary to use more physical plant per unit of manpower than was the case before. Finally, we are in the pilot-plant stage of the greatest advance in industrial technology in the world's history. We have ahead changes in techniques so vast and fundamental as to render a large portion of our present plants obsolete. We have a long list of new industries into which we must pour tens of billions of new investment before they can produce the goods out of which we can build a new high in our standard of living. Add all these demands together and we get a level of investment spectacularly high as compared with any period in this nation's history.

Under such conditions the availability of credit and capital funds is a matter of vital interest for we can be sure that present levels of business activity cannot be maintained without continued heavy capital outlays.

Money Is Not as Plentiful as It Was

The question—"Where are the funds coming from?"—might at first glance appear superficial in view of the fact that credit is cheap in historical as well as real terms. But new capital funds are in fact much less readily available than they were a few months ago.

(1) Self-financing through retained earnings and depreciation

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*An address by Mr. Shields at the Government Finance Side Session of the 52nd NAM Annual Congress of American Industry, New York City, Dec. 5, 1947.

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Pictures taken at the recent annual meeting of the Security Traders Association of New York appear in the Pictorial Section.

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SEC Policy of Revealing Capital of Dealers Un-American

By JOHN DUTTON

Writer sees small dealer adversely affected unless Commission reverses policy. Praises firms with large capital for condemning procedure because of recognition of fact that condoning policies inimical to all except wealthy will eventually work to their detriment and detriment of capitalism generally.

On Nov. 26 a sales letter calling attention to the advantages of subscribing to a certain financial publication stated that starting in an early issue a complete list of U. S. registered dealers with their invested capital would be carried in its columns. The letter went on to say that the figures were compiled from sworn financial statements filed with the SEC by each registered dealer.

Does this mean that registered dealers may now expect to see the vital financial information which they have been compelled by an SEC rule to file with the Commission bandied about by anyone who has a magazine to sell, a financial service to offer, or as a list to be used for other promotional purposes?

Did Congress intend that information of this sort be made public so that it could be used to the detriment of the smaller dealer in securities? We say that Congress intended nothing of the sort!

If the SEC is interested in seeing to it that the free enterprise system is preserved in this country, and that the Constitutional rights of small business are protected, it will immediately take steps so that the particulars contained in financial statements of dealers are kept confidential.

Time and again it has been shown that there is absolutely no connection between the amount of capital of a dealer and his integrity or ability to render an honest and efficient service to his customers.

It is in the best American tradition when we say that honesty and ability are not virtues that can be judged by the size of a man's bank account.

Yet, publishing the capital of widely segregated securities dealers, operating under conditions peculiar to their own communities, will provide the general public with an entirely distorted and incomplete picture of the capacities of each one of these registered dealers.

Since the public does not understand how it is possible for a small securities firm to be entirely solvent and render efficient service, the firms in this category will be subjected to an extremely unfavorable comparative position when the capital of some of their larger competitors is contrasted with theirs. **This is the sort of thing that is made to order for any unscrupulous salesman or registered representative who might wish to cast unfair aspersions upon a smaller competitive firm.** Local dealers in smaller communities will find that if this list is given wide distribution it will be much to their disadvantage in many ways.

It is to the credit of many large firms in the securities field that they have frowned on the SEC policy of making public the financial condition of dealers as disclosed by the financial statements filed with the Commission. While they recognize that the comparison of their large capital with that of smaller firms will temporarily help their business, in the long run it will work to their detriment to advocate or condone policies that are destructive to all except the wealthy.

EVERY DEALER SHOULD IMMEDIATELY WRITE TO THE SEC REQUESTING THAT INFORMATION CONTAINED IN FINANCIAL STATEMENTS FILED WITH THE SEC BE KEPT CONFIDENTIAL. HE SHOULD ALSO WRITE TO HIS SENATOR AND CONGRESSMAN ASKING THAT THEY USE THEIR INFLUENCE TO COMPEL THE SEC TO DO SO.

Preferred Stocks for Trust Investment

By ROGER F. MURRAY*
Vice-President, Bankers Trust Co., New York City

Mr. Murray weighs arguments both pro and con as to whether preferred stocks are appropriate as medium for trust investment. Holds it is a matter of proper selection of individual issues, and lays down as factors in selection of industrial preferreds: (1) proper industry analysis; (2) capitalization analysis; (3) earnings analysis; (4) current asset protection analysis; and (5) protective provisions analysis. Stresses factor of preferred stock yields as compared to yield of bonds, and says timing of purchases is important.

When the question is asked, "How appropriate are preferred stocks as a medium for trust investment?" the standard answer is that it depends upon the circumstances surrounding the investment problem in each individual account. This, as we all know, is a valid and logical general answer, but it is not a very helpful one. Furthermore, accepting such an answer would deny me the opportunity of discussing a subject which has been my special interest for a number of years. I should like to pose the further question: "Why do we ask ourselves about the appropriateness of preferred stocks for trust investment rather than take it for granted that they are suitable?" After all, we do not hesitate to make the general statement that representative corporate bonds are suitable for trust investment, without relating our opinion to the special circumstances and requirements of each fund. Why, therefore, do we not include preferred stocks as a matter of course?

Roger F. Murray

The Case for the Negative

I believe the answer is to be found in our knowledge of the record and in our vivid recollections of the difficulties which investors in preferred stocks have faced in the past. I refer not to legal liabilities, but to the strain on relations with beneficiaries and legatees which we can visualize in times of adversity if we share the *average* experience of investors with dividend omissions and shrinking market values.

We are all well aware of the fact that less than a half-dozen railroad preferred stocks have demonstrated investment characteristics. In the public utility field, the rather good performance of the operating company issues has been offset by unsatisfactory holding company stocks. The largest volume for investment purposes consists, of course, of industrial issues. Examination of the record over a 60-year period shows that about two-thirds of the new industrial preferred stock issues have proved unsatisfactory investments. Outstanding issues of general market interest show somewhat better results, but in only 41% of the cases was every dividend paid when due throughout the decade 1931 through 1940. In another 25% of the cases, dividend arrears were paid up by 1940, but the stocks were highly unstable holdings.

It is this bad history of preferred stocks as a class which accounts for the opinion, so frequently expressed by writers on investments, to the effect that preferred stocks possess the weaknesses of both bonds and common stocks and the advantages of neither. Other arguments against preferred stocks for trust investment are derived from the basic weakness of a preferential, as opposed to a contractual, claim upon earnings and assets. It is this basic weakness that has permitted common stockholders to get the better of preferred stockholders in recapitalizations and reorganizations. In recent years the synthetic merger has been widely used to coerce minority stockholders. As a result if an individual preferred stock turns out badly, it is likely to turn out badly indeed.

Proponents of preferred stocks for trust investment are also placed on the defensive because the lack of a fixed maturity contributes to price instability. In a preferred stock portfolio, furthermore, it is impossible to obtain the average rate of return over a period of years, as can be done within limits through the rotation of maturities in a diversified bond portfolio. And so I could continue to stress the negative side of the case, citing statistics and examples to reinforce these major points and a host of minor ones. But let us give the advocate of preferred stocks for trust investment a chance to make a short rebuttal. We know that he is bursting to point out: "While what you have said is largely true, you are overlooking the compensation in the form of higher yield which the investor receives as compared with placing his funds in long-term bonds."

Conceding for the moment, that the compensation is adequate for accepting a security with certain inherent weaknesses and without a maturity, we ought to examine this rebuttal with care. We should make certain that the argument is applicable to trust investments. Patently, it is not. A trustee is serving two masters, the life beneficiary and the remainderman. It is small consolation to the latter to have us explain to him that we did quite well on a portfolio of preferred stocks because we received enough additional income, over and above what we could have collected from bonds, to cover the losses and to show a clear net advantage. This is like insuring our home against fire, naming our maiden aunt the beneficiary of the policy, and then having a fire which destroys much of our property. While that dear old lady is taking a sightseeing trip to the Grand Canyon on the proceeds, and the insurance company is explaining that the loss was covered in full, we are wondering what we shall use for money to pay for restoring our home to a livable condition.

The idea of compensation through higher yield for additional risks assumed is really valid, therefore, only when the interests of beneficiary and remainderman are identical, or when, as in pension funds income and principal are combined. This will remain true until we invent some method for setting aside from preferred stock yields enough income to provide a reserve for future losses. At the moment, there is no practical way to do this in the ordinary trust.

The Case for the Affirmative

Perhaps we have done enough, at this point, to discomfit our

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*An address by Mr. Murray before the Mid-Winter Trust Conference of the Trust Company Section of the Pennsylvania Bankers Association, Harrisburg, Pa., Dec. 5, 1947.

LETTER TO EDITOR:

Takes Exception to Barbour's Concept of Dow Theory

Anthony Gaubis, of Anthony Gaubis & Co., Investment Counselors, contends it is not a "forecaster of Market Movements." Criticizes Dow Theory as anti-social, since it implies a concerted action that helps to exaggerate business cycle.

Editor, Commercial & Financial Chronicle:

May I add a few words of rebuttal to Mr. Barbour's letter, published in "Chronicle" of Nov. 27, in support of the Dow Theory?

At the outset, I want to say that I do not fully share Mr. May's over-all opinion of the Dow Theory, and do feel that it has a certain limited value, particularly as long as it has a large following. Like Mr. May, I do feel that the public has been, and still is being, oversold on this so-called market theory, and does not realize its limitations and its dangers. Mr. Barbour's letter adds to some of the popular misconceptions of this theory, and certainly does nothing to clear them up.

Anthony Gaubis

Judging by Mr. Barbour's letter, and as so ably pointed out by Mr. Prince in these columns last week, the Dow Theory is really all things to all people. Mr. Barbour admits that at the present time, some Dow Theorists are long of stocks, while others are out of the market. However, he then says "Each group will come out well over any period of time, for they understand the market." In other words, apparently, you can't lose!

Mr. Barbour goes on to say that the "Dow Theory is a philosophy for stock market analysis and interpretation, and the forecasting of the probable prevailing major trend and intermediate movements of the market." This is quite in contrast with the statement made by Mr. A. J. Cortese in his Nov. 17 article for "Barron's." In this article, Mr. Cortese states that "The shortcomings of the Dow Theory, as a basis for investment decisions, are the result, not of fault or error in its formulation, but rather of a failure to realize that with respect to stock price trends, it is merely a definition of a rising or falling market. When applied to the market alone, apart from its relation to business, the Dow Theory is really not labeled correctly, for it offers no theory of market movements. It is not, as some students of it have stated, a 'forecaster of security price trends.' The formula describes only what has happened and says nothing about the future of the market." I believe that any unbiased individual who has read even a small part of Mr. Dow's work will agree that Mr. Cortese, rather than Mr. Barbour, is correct in these two contradictory points of view.

I believe that Mr. Barbour's frequent reference to Robert Rhea's record merely confuses rather than clarifies the real point as to the soundness of the principles behind the Dow Theory, as a means of forecasting the stock market's probable future action. As all market students know, Robert Rhea was one of the outstanding traders of his time. He definitely did not confine his personal studies to the Dow Theory, and he frequently took positions in the market which he frankly stated were not in line with underlying trends as defined by the Dow Theory. Mr. Barbour makes a particular point of the fact that Robert Rhea circulated a bullish prediction on July 24, 1932, when the Dow Jones Industrial Average stood at about 49. Mr. Barbour neglects to state, however, that under date of Nov. 12, 1932, Robert Rhea wrote that "Under a strict interpretation of Dow's Theory, we are yet in a bear market. . . . Should K (58.2 in the Dow Jones Industrial Average, and 24.2 in the companion railroad average) be broken by both averages, all bullish implications would be nullified." The industrial average subsequently declined to 50.2 and the rail average to 23.4! In the spirit of telling the whole truth, I believe that Mr. Barbour should have also mentioned this statement if he does not want to mislead the public as to the record of the Dow Theory, in practice.

Every Dow Theory student will admit, as does Mr. Barbour, that there are times when this Theory calls for taking tentative positions, subject to a near-term reversal of positions in the event that certain Dow Theory points are penetrated. This is certainly of no help to investors, and particularly to those with fiduciary responsibilities. If such investors were to follow only the signals given at "bull market" and "bear market" confirmation points they would be confronted with the fact that three of the past five bull market confirmation signals were given at higher price levels than those prevailing at the time of the immediately preceding bear market signals—something which had not occurred even once during the preceding 25 years! Is it any wonder that serious and unprejudiced market students have been asking themselves whether the Dow Theory is a sound theory to follow at the present time?

Mr. Barbour states that "Like the Russians, who can see nothing good in this country, the critics of the Dow Theory see no good in this philosophy." He then goes on to say that "The critics see the trees but not the forest. The parade of critics is endless, yet the Theory survives. Dow Theory is as vital now as it was in the days of Rhea and Hamilton, and its followers are legion." Come, come,

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Observations . . . .

By A. WILFRED MAY

A Widely Available Investing Tool

(Ninth of a Series on Investing Methods)

Certainly one of the important readily-available "tools" calling for evaluation and re-evaluation by the investing public is the *investment company* in its present-day metamorphosis from its genesis in Scotland and its erstwhile adolescent growing-pains here.

A. Wilfred May

As developed in the Scottish and English investment centers from the 1880's and throughout the first quarter of this century, the aim of their operations was based on the attainment of recurring income from dividends and interest, in lieu of capital appreciation which, when cashed, was kept in the form of constantly-growing reserves. Regarding such capital gains as fortuitous and not as real income is in line with traditional British investment philosophy—as manifested in British tax laws which have always rejected capital profits as a proper object of income taxation.

In this country, although there were a few sporadic attempts to duplicate the mutual fund technique at the turn of the century, due to the general public's lack of securities-consciousness until the Liberty Loan campaigns of the First World War, and the tremendous stock market orgy of the following decade, it was not until the late 1920's—most unfortunately—that the American investment trust movement got started in earnest.

Founded at a time of feverish speculation characterized by brokers' loans of $8 billion, loans on securities of $20 billion, and call loan rates oscillating between 8 and 20%; and multiplying to the nth degree the management and capital-structure abuses which had previously been engaged in by holding companies and highlighted by a few reformers like Prof. William Z. Ripley; promoters of the late nineteen-twenties, catering to the raging speculative fever, formed "trusts" for the acquisition of securities at the same multiple-inflated levels as was every kitchen-maid and barber then busily engaged in master-minding the market. Often little else than gambling pools, these trading companies unfortunately endeavored to prostitute the traditionally respected nomeclature of "investment trust" for their own ends. As the SEC described the process in its report submitted to the Congress in 1938, "the British trusts were utilized to a greater extent in publicizing and promoting the sale of securities of American investing companies, than as models for their structures and operations."

The post-1929 collapse of the entire structure of speculation, entailing the decimation of the asset-values of the trading units as well as the legitimate funds, amounting to a 53% shrinkage in the public's total investment in the trusts, brought on the SEC's minute and long-drawn-out investigation of trust practice prescribed in the Public Utility Holding Company Act of 1935. Following the Commission's submission of very voluminous reports (of 150 and more pages) to Congress from 1937 on, a regulatory law was finally passed in 1940.

Regulatory Safeguards

The regulations, applied through the resulting Investment Companies Act of 1940, safeguard the buyers and holders of investment company securities in the following important ways, among many others:

Investment company capital must be a minimum of $100,000 before any public offering is made.

To guard against over-leverage (or the equivalent of British "over-gearing"), the equivalent of individual traders' "margin requirements" are prescribed, through restrictions on the investment companies' own capital structures. The law orders that funded debt must be covered by at least triple the amount of assets, and preferred stock capitalization by at least a double amount of assets.

Cross-holding between investment companies, chain-holdings, and the erstwhile pyramiding, are prohibited.

Basic investing policies must be clearly stated, cannot be changed without stockholder approval; and by way of information complete portfolio and balance sheet results must be imparted to the shareholders at least semi-annually.

Self-dealing by management and other abuses arising from duality of directors' interests are barred.

The SEC's constant administrative supervision, together with State Blue-Sky laws to back up this Federal statute, have corrected all past and potential abuses as well as is practically possible. Consequently, just as the British and Scotch trusts went through their growing pains (though far less severe and sensational ones), the

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The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

Scattered plant shut-downs and a slightly reduced output resulted in a modest decline in total production last week. Notwithstanding this small recession industrial output for the week was sustained at a very high point.

In the ranks of labor the level of employment remained very high with layoffs in some lines compensated for by expanding work forces in other plants. It is reported that some women who left the labor market at the close of the war have again taken up employment in industry.

Confirming this high state of national employment, Director Robert C. Goodwin of the United States Employment Service reported that employment in the United States is likely to hold near 60 million throughout most of 1948. Farm labor, he stated, will be scarce, but will be alleviated by a program of importing Mexican farm labor, to be announced by the State Department.

* * * *

In the spirit of these extraordinary times the Congress of Industrial Organizations and its unions on Tuesday of last week served notice upon industry through its President, Philip Murray and nine CIO Vice-Presidents, that it would get a drive under way for a new round of wage increases.

This drive is expected to be launched within the next few months by major CIO unions such as the Maritime Union, the United Electrical Workers, United Auto Workers and the United Steel Workers Unions.

Just what amount of an increase will be sought was not disclosed, but the CIO's statement concerning fresh demands claimed that since January, 1945, manufacturing industry workers have "suffered a loss of over 18% in purchasing power." This figure, it is felt, will have an important bearing on wage negotiations which will take place soon.

The effects of past increases in the wage rates of workers in the transportation field were felt last week when the American Airlines reversed its position and filed a request for a 10% increase in passenger fares because of higher operating costs. The railroads joined them by filing a second amendment on Wednesday of that week to their pending freight rate petition. The roads are seeking an increase of slightly less than 3% over the 27% at present being considered by the Interstate Commerce Commission, to cover the 15½ cent an hour wage increase granted recently to its workers.

It is pertinent to note, with respect to rail wage boosts, that for the month of October of this year net railway operating income of the class 1 railroads was close to $9,000,000 below that for the same month of 1946, according to the Association of American Railroads.

The figure for October stood at $76,433,466 as compared to $85,255,053 in the like period of last year and represents net after payment of operating expenses and taxes, but before interest, rentals and other fixed charges are paid.

There was increased evidence of the approaching Christmas holiday in stores last week. Seasonal promotions stimulated consumer interest in gifts and other holiday goods. Retail volume in the week rose moderately above that of the preceding week and was well above that of the corresponding week a year ago. Luxury items attracted favorable attention in some areas but consumers generally sought medium-priced articles of good quality.

Retailers continued to be interested in practically all types of goods and placed substantial orders. Wholesale volume rose slightly and held moderately above the level of the like week a year ago. Buyer insistence on quick deliveries increased and deliveries generally were slower than in recent weeks.

STEEL TONNAGE SCHEDULED FOR CURRENT WEEK BEST SINCE MAY, 1945

Quietly but forcibly, major steel companies have been striking out in an effort to wreck the black market steel racket. Dozens of customers have been thrown off mill order books for gray market activity, according to "The Iron Age," national metalworking weekly.

One major steel firm, the magazine points out, has sent a letter to all of its customers soliciting information in any case where the customer has been offered that steel company's material at gray market prices. The firm's Vice-President and General Counsel has been given the specific job of tracking down any gray market steel involving his company's products. A few other major steel companies have been continuously attempting to eliminate any chance of their products winding up in the gray market.

No system of government allocation or control would have any effect on the steel gray market which involves only 4 or 5% of the total steel being shipped this trade paper observed. Nor can the activities of steel companies which are desperately try-

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Joseph J. Lann to Form Own Investment Firm

Joseph J. Lann will shortly open offices to engage in the secu-

Joseph J. Lann

rities business. He was formerly for many years a partner in M. S. Wien & Co. At present he is making his headquarters at 2 North Broadway, White Plains, N. Y.

Ralph Jerome Co.

OKLAHOMA CITY, OKLA.—Evelyn Jerome is conducting an investment business from offices in the Petroleum Building, as sole proprietor of Ralph Jerome Co.

Long-Term Trends In Industry

By DONALD B. WOODWARD*

Second Vice-President, The Mutual Life Insurance Co. of New York

Mr. Woodward lists the following five nationwide trends with their vital long-term effects on investors: increased marriages, higher birth-rate, greater longevity, rising national income and its redistribution, and drastic decreases in the cost of machinery related to wages. Concludes analysts and investors must concentrate on companies having good research units, and emphasizes importance of world peace.

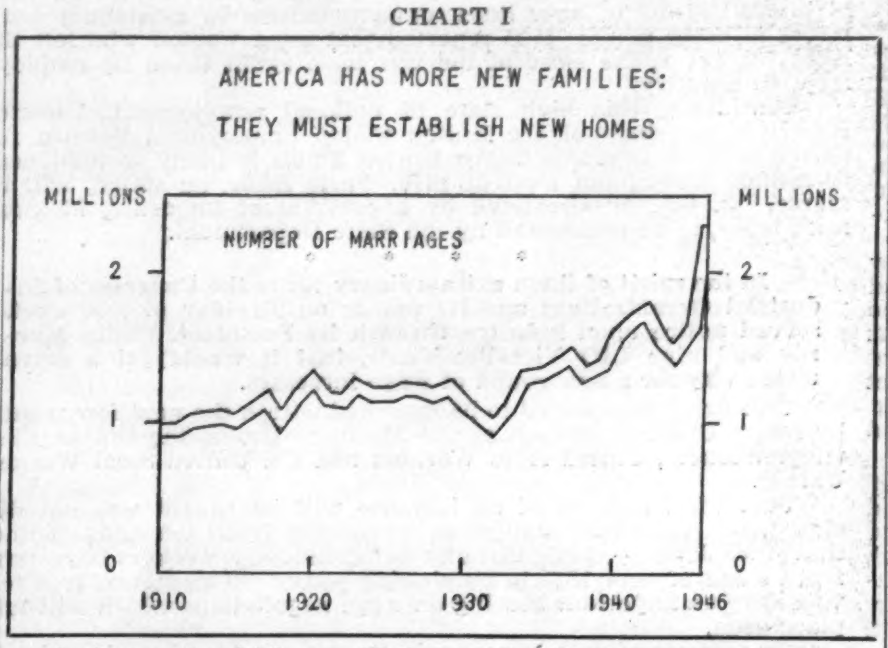
Basically, business operates to supply and serve the people of this country—or to supply and serve other businesses which directly operate to supply and serve the people. This basic fact is sometimes lost to sight in the superstructure of dollar figures, pieces of paper, ratios and interlocking corporations which are the direct instruments with which we deal. But if we look through this superstructure, we can see clearly that the end result of business activity is to provide goods and services to the people.

Donald B. Woodward

Study of what is happening to the people can therefore provide some clues to what is happening and is likely to happen in the future to business. The long-term trends in population and related factors have a very great influence in determining long-term trends in industry. What I shall attempt to tell and to show you is some of the most important trends in what is happening to people, and to suggest some of the trends in business which they are producing, and which are likely to persist far into the future.

*A talk by Mr. Woodward before New York Society of Security Analysts, Inc., Dec. 4, 1947.

CHART I



In the terms of the economist, if you would like the matter stated that way, I shall deal with factors influencing the volume of demand, and with changes in the composition of demand.

Five major trends will be indicated and shown, and from a review of these, two general conclusions will be drawn.

Implications of Increasing Marriages

The number of marriages in the United States is now very high, as Chart I shows. The number means a rate that is highest in all American history, and has rarely, if ever, been exceeded in any other country in the world. This situation suggest a profound optimism among the population—notwithstanding the fact that the Dow Jones averages seem unable to progress upward.

This high number and high rate result in part from deferment during the war, and even in the depression of the unlamented thirties. The high incomes now prevailing are also a significant influence, for, though it horrifies the sentimentalists, the road to the deposit window and the road to the altar are to no small extent one and the same.

The number and rate of marriages may stay high, or may presently diminish—I am not here to prophesy. But it is a fact that an extraordinarily large proportion of the American population is now entering upon the stage of accumulation—for that is what marriage denotes. And, given the all but inevitable physiological processes of a man and a maid, there will be another very large number of marriages some 20 to 24 years hence, again in about 40 to 45 years hence, again about 60 to 70 years hence—and so on down through a very long period of time.

The entrance of a very large number and proportion of the people into the period of accumulation, in which they will remain for 35 to 40 years, has very considerable economic and investment meaning. It is easy to identify a number of businesses to which this means an enduring large demand for products, fluctuating, of course, with the business cycle, but clearly constituting a long-term trend.

One business for which this situation provides a long-term trend of demand is housing, spreading out, of course, into building materials, household furnishings, appliances, real estate and the like. Another line of business similarly affected is that providing home services, including telephones, electricity, fuels, home publications, gas and water. A third is virtually all forms of insurance: life insurance because marriage

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A Prosperous Germany Is Essential!

By DR. J. GOUDRIAAN

Professor at Commercial University of Rotterdam, and Technical University of Delft

Political economist terms it mistake to consider American help an isolated element. Advocates Western countries' claims to German property be transferred to U. S. in exchange for Marshall Plan benefits. Declares a prosperous Germany under American influence would be best guarantee for world peace.

HIGVERSUM, HOLLAND—In these days, now that famine and cold are menacing the victorious nations of Europe as well as the beaten Germans, it becomes more and more clear, that material and financial aid is wanted from the U. S. A. on a scale hitherto not expected.

This confronts us with the problem if the money and the goods are to be given as a dole or that it is possible to place the whole transaction on a more business-like footing. Useless to say, that if the latter would be possible, this would highly serve the interests of both parties concerned, but it is obvious that up till now the space for sound credit giving to European countries is very restricted.

The two loans, granted by the International Bank to France and Holland, are chiefly backed by the American investments of these countries. In the report of the 16 countries concerning the Marshall Plan only an amount of just above $3 billion is asked from the Bank for investment in capital goods and for the remaining $19.3 billion they are looking to the American Congress. These $19.3 billion are mainly intended for the buying of coal, oil, food, fertilizer and textiles and it may seem rather a difficult task to make one believe that European countries, without the aid of former American investments, will ever be able to pay interest and amortization in due time.

I believe however, that we are making a bad mistake by considering the American aid to Europe as a single, independent problem instead of seeing it in its logical connection with the circumstances that are at the root of all present evils: namely World War II.

The want of consumption goods in Europe just as its need for rehabilitation of its factories and workshops, finds its origin in the devastation caused by the war, the looting of the Germans and the temporary demoralization of its workpeople and management after five years of oppression, terror and bombardments.

Therefore the nations of Europe being grateful debtors of America, are still potential but resolute and determined creditors of Germany.

The Reparations Problem

Here arises the old and too well-known problem of reparations.

Nobody who has read the famous writings of the late Lord Keynes concerning the Treaty of Versailles and who has seen the confirmation by experience of his most pessimistic expectations will speak about reparations in the loose way so popular in France after the first war: "le Boche payera"—"Germany will have to pay."

Every one will now agree that the amount of reparations that can reasonably be drawn from Germany by the export of goods is for the first decade insignificant as compared with the enormous havoc caused by the Nazis. The transfer of machinery from dismantled factories, the putting to work of German prisoners of war, the annexation of certain parts of German soil are also small means; they keep Germany in a permanent state of unrest and are hampering by themselves the restarting of German production which has to provide anyway the means for reparations.

There is however one way of settling the reparation problem in a rather short delay and that is **to draw the indemnity wanted not from the national income of Germany, but from its national wealth.**

This procedure was quite impracticable after the first war. Germany was then occupied by the allied forces only for a very small part; there were certain reasons to believe in the good faith and the power of the Republic of Weimar and the dislocation in Europe was not comparable with the present one.

Now, however, it has become obvious even to the most optimistic mind, that the occupation of the entire territory of Germany has to be continued for an indefinite period, at least for the first decades. This means that the first and most essential condition for attaching real value to foreign owned rights of property in Germany will be fulfilled at least for the just mentioned period.

The second question is if the amount of German property that can reasonably be transferred to foreign ownership, is sufficient.

The "Institut fur Konjunkturforschung" (Institute for the study of the business cycle) at Berlin, under the direction of Prof. Wagemann, has just published a study concerning the present state of the German national wealth.[1]

From this study the following figures are quoted; they include the Western and Eastern zone; property situated in the territory ceded to Poland is counted as a loss.

German national wealth in:	Value in 1939 1 billion RM	Losses and damage in % of 1939
Land & forestry	120	25
Industry & mining	140	50
Commerce	10	70
Traffic	50	50
Public property	40	50
Houses	125	40
Furniture & personal effects	105	55
Assets abroad & gold	10	100
Total	600	47%

Starting for a moment from the total value of 600 billion RM of '39, that equals about $240 billion of 1947, one can safely say that the total wealth still existing in the Western zone is about 60% of 53% of $240 billion, i.e., $75 billion. Reckoning about one-third as invested in industry, mining and traffic (this fraction is certainly higher for the Western zone than for both zones combined), $25 billion would be capable of transferring to the Western powers. This surpasses already the total amount of $22.4 billion asked for by the Paris Conference on the Marshall Plan.

It is, however, pretty sure that the figures given in the German report are far too low. The well-known estimate of Helfferich calculated the German national wealth in 1911 as being 310 billion Mark. From 1911 to 1939 the price level doubled, making the 600 billion Mark wealth of 1939. But the continuous increase in investment, valued at 3% per year during the period 1911-1939 makes another doubling very likely.

The cautious reader may ask if

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[1] The figures given above are cited from a summary of this study in the Quarterly Review of the Netherlands Economical Institute of September 1947.

From Washington Ahead of the News

By CARLISLE BARGERON

One of the damning indictments against the Coolidge Administration was that he would never do anything to discourage the boom which led to the 1929 collapse. Instead, frequently when the stock market faltered he was wont to send it off on another rise with some such statement as that our prosperity knew no bounds.

The fact is, of course, that had he ever done anything to check the boom he would have probably been ridden out of office on a rail. Under Harding, the Federal Reserve Board upped the discount rate, and from what we were to hear from Farm Belt politicians for the next 10 years, our tillers of the soil were thrown into poverty overnight.

Carlisle Bargeron

We used to meet these poverty stricken farmers at the watering and winter resorts, traveling in high priced automobiles, and they always seemed to be enjoying the boom—maybe they had gone into the stock market, too—along with the rest of us. Nevertheless, the farmer's "plight" was a never ceasing political agitation all through the '20s until he really did come of trouble just as the rest of us did.

That is "plight" up until then was mostly of political making is indicated by the fact that the Farm Belt never did any of the dire political things which were predicted by the Farm Belt politicians in those days. I remember quite well that it was insisted that Coolidge's veto of the McNary-Haugen bill meant the end of the Republican party in the Middle West. Shortly after its veto I made a tour of that section and could find no more than passive support for the bill, yet a tremendous agitation had been worked up to pass it in Congress. I thought surely there must be some support for it in the 10th Iowa district which was represented by Haugen, a co-author of the bill, and in a determined effort to find some support somewhere I went there. Lo and behold there was none there.

Then along came Hoover seeking the Republican Presidential nomination in 1928. Former Governor Lowden of Illinois, opposing him, based his campaign on a promise to revive the McNary-Haugen bill and as convention time approached we were told that angry embattled farmers were to gather at Kansas City, where the convention was held, to support him and block Hoover. They finally showed up, these angry embattled tillers of the soil, 100 of them at least, attired in brand new overalls, and their parades with a brass band provided the lighter side of the convention.

Notwithstanding all this, Hoover was finally convinced of the "seriousness" of the political situation in the Farm Belt. In the subsequent campaign I was sitting one night in a hotel room in Lincoln, Neb., with the late Senator Borah. The late Dr. Hubert Work, Hoover's campaign manager called Borah on the telephone and excitedly told him that the Middle West was by way of being lost and that only Borah could save it. I had toured the section pretty thoroughly and hadn't been able to find a single state for Al Smith. Borah, himself, had no illusions about the outcome but he gravely told Dr. Work that he wouldn't be able to save the Middle West unless Hoover authorized him to make the statement that the first thing he would do would be to open up the tariff for revision of agricultural items only. Of course, as it subsequently turned out, when the tariff act was opened up, the revisions couldn't be confined to any one set of items and we got the Hawley-Smoot bill. Dr. Work within 30 minutes phoned Borah to say the "Chief" authorized the statement and that was the beginning of Hoover's undoing, though the election proved the Middle West had been safe all the time.

In spite of this plain history—the fact that the uprising of the farmers following their so-called deflation at the hands of the Reserve Board was largely bunk—the current crop of politicians are working in the knowledge that it did stir up a lot of political agitation, and also in the knowledge that if Coolidge had done anything to deflate the boom, there is no telling what would have happened to him. And there is not one of them from President Truman on down, who wants to stop the present boom or inflation. They all want to make gestures, but no one wants to stop it. Neither does any group of citizens want it stopped as it applies to them. Marriner Eccles pointed out before a House committee that one of the most serious inflationary factors is the policy of making money easily available to veterans to buy homes. It is silly, of course, to talk about tightening up on bank credit when money is flowing around so loosely as this.

George Sokolsky, one of the better syndicated columnists, gave a striking example recently of the motive behind the Marshall Plan. Our railroads are going in for Diesel engines and our steam locomotive manufacturers find themselves without a market in this country. So they must sell to Europe and in order that they may do this, we must give Europe money with which to buy the locomotives. There are only a few hardy souls in Congress who want to stop the colossal artificial prosperity device which the Marshall Plan essentially is.

But while the politicians, the Administration and the Republicans alike, want to keep this "prosperity," they are alive to the agitation against high prices. The Republicans feel they are being held responsible for this and the indications are that they are. They said prices would level off with the killing of OPA, and the public unmistakably wanted OPA killed. But the prices, for whatever reasons, haven't leveled off.

So you can rest assured that "something is going to be done about high prices," and whatever is done will likely cause more harm than good. But the political situation is such that "something" has got to be done.

Speaker Joe Martin has put out a feeler which may catch on. Fix the anti-trust laws to permit industry voluntarily to fix prices. Maybe we are getting another NRA, "to take the chaos out of business," started here.

A Bank Investment Portfolio

By E. SHERMAN ADAMS*

Assistant Vice-President, Central Hanover Bank & Trust Company, New York City

Mr. Adams discusses problems of basic approach to a bank's investment policy and its relation to the peculiar circumstances of the bank itself. Holds each individual bank must adjust its investment portfolio to its situation in regard to its capital, liquidity and earnings. Urges proper maturity distribution and the elimination of undesirable or risky assets. Cautions against trying to guess bond market swings, and foresees no substantial change in government bond interest rates. Stresses need of close and proper supervision of bank investment portfolios.

The investment program of every bank should be subjected every so often to a thorough overhauling, a careful and critical reappraisal. Today we are confronted with rapidly changing conditions which have vital implications for bank investment policy.

Business is going full blast; prices of commodities and real estate are sky-rocketing; farm incomes are at unprecedented levels; bank loans are expanding rapidly. In short, we are in the midst of a first-class inflationary boom. And all of us are well acquainted with the old maxim that the higher we go, the harder we fall.

E. Sherman Adams

Important changes have also been taking place in the security markets. The long downward trend in interest rates came to an end early in 1946. Recently Government bond prices have declined rather sharply and some issues are selling five points or more below their 1946 highs. There have been even greater declines in prices of municipal and corporate bonds.

What will be the impact of current and future developments upon our banks' investments? Are the investment policies we have been following appropriate for the changed conditions that exist today and the new conditions that may exist tomorrow? If not, how should we modify our investment policies in the light of these changing conditions? It may be unusually important at this time that we pause to take stock and to weigh carefully all of the elements of our investment programs.

In doing so, there is a variety of questions to which every banker must formulate his own answers. Each of you has received a copy of a set of 22 questions (text below) which represents an attempt to summarize in a logical fashion the steps that should be followed in making a thorough reappraisal of your bank's investment program. The investment results that you will obtain from your bank's securities portfolio over the years to come will be largely determined by your attitude today regarding these 22 questions and the manner in which you apply your answers to your investment program.

Basic Approach to Investment Policy

To begin with, it is essential to consider first your basic philosophy with regard to bank investments. The first five questions on the list are entitled "Your basic approach to investment policy."

Despite all that has been said and written regarding bank investments, the fact is that there is little unanimity of opinion among bankers with respect to many of the very fundamentals of bank investment. For instance, I am quite sure that all of you know of banks whose circumstances are roughly quite similar but whose investment policies differ very sharply. Differences in investment policy frequently reflect differences in the basic assumptions of individual bankers with regard to the basic fundamentals of bank investment policy. In some cases, bankers are not even aware of the underlying assumptions upon which they operate and which have such a decisive influence in the long run upon their investment results and upon the condition of their institutions.

The first question on the list, as you will see, reads: "Do you regard your investment portfolio as being primarily a means of adjusting your bank to a satisfactory position with respect to safety and liquidity and, insofar as circumstances permit, with respect to earnings as well?"

A great many bankers, perhaps even a majority, subscribe to this general approach to investment policy. In other words, they regard investment policy as a flexible means of control whereby they are able to offset changes that occur in their deposits or in their loans or in their earnings position.

This general attitude toward bank investment policy has much to commend it. In the case of loans, the initiative rests with the borrower; in the case of deposits, the initiative rests with the depositor; but in the case of investments, the initiative rests with the banker himself. Investment policy is obviously well suited to be used as a means of managerial control, as a balance wheel for adjusting the position of the bank to changing conditions.

This philosophy of investments, however, is not embraced by all bankers by any means. I was talking recently with a banker who told me that he had for years followed a fixed formula in his bond account; namely, he has kept all available funds invested in highest grade bonds with maturities quite evenly spread over a ten-year period. Changes that have occurred in his loans or in his deposits or in his earnings position have caused no modification whatever in his investment program.

A Rigid Investment Policy

Some persons are rather scornful toward a rigid investment pattern of this type but it seems to me that it definitely has its good points. Over a period of years, reasonably satisfactory results are practically assured, regardless of what happens. The banker avoids the risk of making errors of investment judgment which might prove to be costly. What is more, he is free to concentrate his energies upon his bank's operations and the development of local business, activities which may prove far more rewarding in the long run.

As a matter of fact, it would seem that the general principle of a well balanced maturity distribution should be a part, in fact a substantial part, of every bond account. A balanced maturity distribution provides protection against any eventuality. The only real question, it seems to me, is whether you are to adopt this principle for your entire portfolio or whether you will plan to exercise some degree of flexibility with regard to some part of your holdings.

Another of the $64 questions is whether you are going to try to guess short-term swings in the bond market or whether you are going to regard your investments as more or less permanent commitments which will ordinarily be held until they are paid at maturity.

There are some bankers who change their investment position substantially from time to time according to their guess as to what the market is likely to do in the near future. Some of these bankers will tell you frankly that they are trying to guess market swings. Others do not even seem to realize that this is really what they are doing. At times they buy bonds chiefly because they think the market may go up, not because they wish to hold the bonds to maturity. And at other times, often in the final stages of a market decline, they sell securities on a hunch they may go lower. Sometimes they sell securities for no reason whatever except "to realize profits," and they then sit back and hope to be able to buy back in at lower prices.

Many bankers have found in recent years that trying to guess market swings is frequently an expensive proposition. The cards are obviously stacked against the average banker. In order to really beat the market, the banker must guess right considerably more than half the time. His profits must more than offset the loss of income that is incurred while he is waiting for the market to decline. Market fluctuations are usually caused by events that cannot possibly be predicted in advance by anyone, even by the Federal Reserve Board itself or the Treasury. A banker may be shrewd enough or lucky enough to catch several market swings, but in the long run, the losses that he will sooner or later suffer when he guesses wrong, will usually wipe out his trading profits.

Every banker should be clear in his own mind whether or not he intends to base his investment operations partly upon guesswork regarding short-term market fluctuations, whether or not he will take profits simply for the sake of taking profits, whether or not he will subscribe to new issues because some salesman tells him he can make a half a point by doing so. If he is wise, he will buy bonds only with the idea of holding them to maturity.

Effect of Interest Rate Trends

Another basic question in formulating your investment program is how much weight, if any, you will give to your opinion as to the long-term trend of interest rates. This is quite a different proposition than trying to guess short-term market swings. A careful appraisal of the long-term outlook for interest rates is to some extent a matter of judgment, not entirely a matter of guesswork.

In analyzing the outlook for interest rates under present-day conditions, certain key facts must be kept in mind. For one thing, it seems apparent that future changes in the level of yields on government securities will depend to a very large extent upon the policies of the monetary authorities: the Federal Reserve Board and the Treasury. It is argued by some that the monetary authori-

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*An address by Mr. Adams at the Michigan Bankers Association Study Conference, Ann Arbor, Mich., Dec. 4, 1947.

Public Utility Securities

Southwestern Public Service

In a recent talk before the New York Society of Security Analysts, Mr. Herbert Nichols, Chairman of the Board of Southwestern Public Service (assisted by Vice-President Stanley), gave an interesting summary of the company's history and progress. The company, now a well-integrated operating utility with annual revenues approaching $12,000,000, has developed from a former holding company, Community Power & Light. This metamorphosis was accomplished by selling a large number of scattered subsidiaries and welding the remainder into a unified system. The area served (principally in northern Texas and including small sections of Kansas, Oklahoma and New Mexico) covers an area larger than the state of Pennsylvania. All properties, with one small exception, are now interconnected with high-voltage lines. A load dispatcher in the new office building at Amarillo can direct the flow of power over the entire system, increasing the operating efficiency.

Farming (including irrigated acreage), oil and natural gas, and cattle and sheep raising are the principal activities in the company's territories. The present prosperity of the oil industry accounts in part for the company's rapid growth. However, another factor in growth is the activity of the company's local managers, many of whom head local Chambers of Commerce and are active in attracting new business to their localities. The present trend toward decentralization of industry is also expected to work in the company's favor.

The company's nine steam generating plants all use natural gas, which is obtained on favorable contracts having about six years to run. Thus with the introduction of new generating equipment fuel costs per kwh are actually declining instead of rising rapidly as with coal burning companies.

The phenomenal growth of the company's territory is indicated by the increase in system load from 70,000 kw in 1942 to 166,000 recently and an anticipated increase to 400,000 by 1953. October revenues were 30% over last year, whereas all electric utilities in September showed a gain of only 13%. With this rapid growth and the lower generating costs, net operating income (before Federal taxes) jumped 36% in October and 22% in September, compared with a 16% gain for the 12 months ending Aug. 31. Earnings for the common stock increased from $1.80 in the 12 months ending August 1946 to $2.50 in the 12 months ending October 1947 (in both cases earnings were figured on the present number of shares).

The company is fortunate in having excess capacity, which permits sales to other local companies, including Electric Bond & Share subsidiaries. By gearing its expansion program a little ahead of immediate requirements, it can insure prompt and efficient service to its own customers.

The company has virtually completed the adjustment of its plant account to an original cost basis, except for a remaining small amount which is being amortized through earned surplus over a period of years. The financial structure is approximately 60% debt 15% preferred stock and 25% common stock equity. and it i the company's policy to maintain these ratios. While the common stock ratio may appear somewhat low, it is interesting to note that about 23% of gross revenues is currently available for common stock dividends, which compares with an average of about 18% for all electric utilities. The principal reason appears to be a much lower - than - average operating ratio.

The company's residential rates average slightly less than the national average despite the large amount of rural area served While it is earning a fairly high return on net plant account (over 7%) the Texas law permits earnings up to 8%. There is no commission regulation in that state, rates being regulated by the individual municipalities. A recent poll of customers indicated that there is no dissatisfaction over rates and that customers are more interested in good service.

Dillon, Read & Co. have acted as bankers for the company for some years. and the successful financing record is indicated by the average yield on its bonds of 2.85% and on the preferred stock of 3.72%. The company recently sold privately $9,700,000 30-year 3% bonds to yield 2.97%. It expects to register soon about $3,000,000 of preferred and common stock, but this need not be offered until next summer if market conditions are too unfavorable. Sale of perhaps $1,000,000 preferred stock is now being negotiated with Dillon, Read. When the common stock is offered. rights will be issued and the offering underwritten. In March 1947 the company offered about 65,000 common shares to stockholders (permitting extra subscriptions subject to allotment) and 95% of the outstanding stock took advantage of these rights.

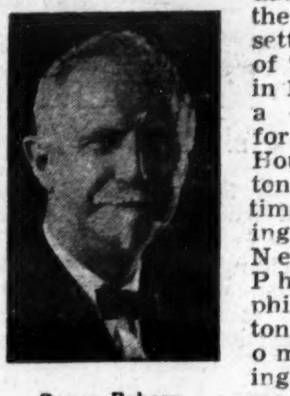
The stock is currently selling over the counter around 21, the approximate 1947 range being 25-20. The company's policy is to pay out about two-thirds in earnings in dividends. The current rate is $1.60 and with the current growth in earnings an increase in dividend payments appears possible in the next six months or so. The current yield is 7.6% and the price-earnings ratio is about 8.4 times.

Gold, Silver, Diamonds Versus Declining Money Value

By ROGER W. BABSON

Mr. Babson reviews progressive depreciation of various currencies and sees possibility of U. S. dollar continuing to decline in purchasing power. Says all people are unanimous that gold, silver and diamonds are only things which, at all times, are worth something.

This week I am making no definite recommendations to anyone; but with the mess the world is in today, here are some facts for readers to consider. Moreover, they relate to changes which I have personally witnessed in my short lifetime. My first job, after graduating from the Massachusetts Institute of Technology in 1898, was as a statistician for a Banking House in Boston. At that time, the leading banks of New York, Philadelphia and Boston were recommending the Reichmark 3s as the safest bonds obtainable — better than U. S. Bonds. The Reichmark, at that time, sold for about 24¢.


Roger Babson

Within 20 years, I saw these German Government Bonds become practically worthless. It is true that the German Government redeemed them in "Marks" but these Marks had dropped from 24 cents to 1/10.000 of one cent. Moreover, holders of German insurance policies and bank deposits suffered the same loss. Nothing like this will happen in the United States. But inflation has always existed since the days when the old European Kings clipped their people's gold coins. Inflation will continue to be a factor and the value of every currency will probably continue to decline.

What Has Happened in China?

I have always been interested in China. My ancestors were in the Chinese trade, sailing ships from Gloucester to China ports. At that time the Chinese dollar was worth 50¢ in American gold. China was ruled with an iron hand by an old lady, Tzu Hsi, the Empress Dowager, who never heard of Communism. The budget was always balanced.

Just before World War II, I was in China inspecting the Shanghai Power Company. At that time, Chinese dollars were worth 5¢ in American money or it took only 20 Chinese dollars to get a U. S. dollar. This was only a few years ago. Today. it takes about 150.000 Chinese dollars to buy one American dollar. This has not been due to any dishonesty. as was the case with Germany. It has happened through a constant failure to balance the budget.

Truth About France

Before World War I, I had numerous clients in Paris, and visited there often. The French franc, at that time, was worth 20¢ in American gold. It was looked upon as stable as our dollar is looked upon today. During World War I this franc gradually declined to about 5¢. This was not due to dishonesty, but to failure to balance the budget.

Just preceding World War II the franc had declined to around 2¢. Since then, through further failure to balance the budget, a huge government debt and other economic causes, the franc has declined to

(Continued on page 39)

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Railroad Developments of the Week—Current developments in the industry—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Special Situation—Analysis of 85-year-old New England company with large dividend accumulation—Raymond & Co., 148 State Street, Boston 9, Mass.

Steel, The Master Metal—Circular on the industry and stocks of several low-priced speculative steel companies—Mercer Hicks & Co., 150 Broadway, New York 7, N. Y.

Times Earnings—Memoranda on several growth issues—Thomas E. King & Co., 39 South La Salle Street, Chicago 3, Ill.

* * *

Air Reduction Company, Inc.—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Aspinook Corp.—Special Report—Ward & Co., 120 Broadway, New York 5, N. Y.

Also available is a special report on **Portsmouth Steel** and the **Upson Co.**

Bishop Oil Company—Special report — Walston, Hoffman & Goodwin, 265 Montgomery Street San Francisco 4, Calif.

Also available are reports on **North American Oil Consolidated** and **Western Maryland Railroad Company.**

Boeing Airplane Company — Special review—John H. Lewis & Co., 14 Wall Street, New York 5 N. Y.

Cleveland-Cliffs Iron Co. — Analysis—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Franklin County Coal Corp.—Late information — Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

Graham-Paige Motors Corp.—Analysis—Seligman, Lubetkin & Co., 41 Broad Street, New York 4 New York.

Also available are analyses of **Foundation Co., Wellman Engineering,** and **Tennessee Products & Chemical.**

Johns-Manville Corporation — Summary and opinion—E. F. Hutton & Company, 61 Broadway, New York 6, N. Y.

Long-Bell Lumber Company—Revised analysis for dealers only—Comstock & Co., 231 S. La Salle Street, Chicago 4, Ill.

Michigan Steel Casting Co.—Analysis—Adams & Co., 105 West Adams Street, Chicago 3, Ill.

Northwest Utilities—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Portsmouth Steel Corp.—Data—Buckley Brothers, 1240 Walnut Street, Philadelphia 2, Pa.

Also available is late information on **Gruen Watch Co.** and **Buffalo Bolt Co.**

Portsmouth Steel Corp.—Resume—J. Roy Prosser & Co., 52 William Street, New York 5, N. Y.

Prentiss-Wabers Products Co.—Analysis in current issue of "The Adams Journal"—Adams & Co., 105 West Adams Street, Chicago 3, Ill.

Public National Bank & Trust Co.—Third quarter analysis—C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y.

Public Service Company of New Mexico — Circular — Brush, Slocumb & Co., 1 Montgomery Street, San Francisco 4, Calif.

Utica & Mohawk Cotton Mills, Inc. — Circular — **Mohawk Valley** Investing Co., Inc., 238 **Genesee** Street, Utica 2, N. Y.

Westinghouse Electric Corporation — Investment appraisals — Kalb, Voorhis & Co., 15 Broad Street, New York 5, N. Y.

Walsh Rejoins Doyle, O'Connor & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Thomas D. Walsh has rejoined the staff of Doyle, O'Connor & Co., Inc., 135 South La Salle Street. Mr. Walsh has recently been manager of the trading department for J. J. O'Connor & Co.


Thomas D. Walsh

COMING EVENTS

In Investment Field

Dec. 15, 1947 (Cincinnati, Ohio)
Cincinnati Stock and Bond Club Annual Christmas Party at the Hotel Sinton.

Dec. 22, 1947 (New York City)
Toppers Annual Christmas Party at the Hotel St. George, Brooklyn.

Dec. 24, 1947 (Toronto, Ont., Can.)
Annual Buffet Luncheon Toronto Bond Traders Association at the King Edward Hotel.

Feb. 3, 1948 (Chicago, Ill.)
Mid-Winter Dinner of the Bond Traders Club of Chicago at the La Salle Hotel.

March 5, 1948 (New York City)
New York Security Dealers Association 22nd Annual Dinner at the Waldorf Astoria.

March 12, 1948 (Toronto, Ont., Canada)
Annual Dinner of the Toronto Bond Traders Association at the King Edward Hotel.

Nov. 15-18, 1948 (Dallas, Tex.)
National Security Traders Association Convention.

Britain's Heavy Gold Losses

By PAUL EINZIG

Estimating British gold losses since end of war at $1 billion, Dr. Einzig predicts remaining $2 billions will be exhausted before mid-1948, if drain continues at present rates. Says Britain must supply needed gold not only to Sterling Area nations but to other countries. Holds much of British exports yields neither goods nor cash, but merely represents liquidation of old balances, and contends there is much illicit outflow of British capital.

LONDON, ENGLAND.—The British Treasury's monthly gold bulletin stated that during November British sales of gold amounted to £48,000,000. This brings the total of gold outflow since September to £103,000,000. Even allowing for the purchase of some South African gold during that period, the net loss cannot be much less than £100,000,000, so that the gold reserve must be now somewhere around £500,000,000. The pace at which the gold stock has been used up has been mitigated by the use of dollars obtained partly from the International Monetary Fund and partly from the released portion of the American loan. It will be remembered that after August 20 $280,000,000 were released on the ground that notice for their withdrawal was given before August 20. Moreover, the British Treasury must have had a certain amount of dollars in hand when convertibility was suspended. Allowing for this, for the purchase of $220,000,000 from the International Monetary Fund, and for the use of some of the balance of the Canadian dollar credit, it is possible to estimate Britain's gold and dollar loss since August 20 at about $1,000,000,000.

Dr. Paul Einzig

The remaining gold reserve of about $2,000,000,000 would be exhausted before the middle of 1948 if the drain continued at the same rate, and if no assistance should be forthcoming. So far the outflow seems to continue almost unabated. The export drive has not yet shown any noteworthy results, and most of the import cuts have not yet begun to produce their effect. It is hoped in official circles that before long the British adverse trade balance will decline materially. At the same time, the cuts in British military expenditure abroad will also begin to make themselves felt.

Even so, the outlook is far from reassuring. For the gold drain is well in excess of the adverse balance, allowing for invisible as well as visible items. In addition to the loss of gold in payment for Britain's own trade deficit, gold has to be provided also for the requirements of other Sterling Area countries, since the gold reserve is supposed to belong to the entire Sterling Area. It remains to be seen how far this conception will be carried in practice. Considering that most countries of the Sterling Area have a gold reserve of their own it seems reasonable to assume that part of the British gold reserve of $2,000,000,000 is regarded as Britain's own reserve which need not be shared by anybody.

Unfortunately Britain has to supply gold not only to the Sterling Area but in practice also to many countries outside that Area. The belief that this drain on Britain's resources ceased when convertibility was suspended is entirely mistaken. For one thing, convertibility was not entirely suspended on Aug. 20. While sterling was no longer usable for payment in the Dollar Area, it could still be used in many countries. Thus Spain was and is in a position to spend in South America the proceeds of her export surplus to Britain. Since the amount of sterling accepted in payment for exports by many countries is limited, the use of sterling by third countries reduces the extent to which Britain is able to pay with sterling for purchases abroad.

The worst of it is that there is no reciprocity in this respect. Britain's export surplus in relation to many countries cannot be used for any purpose. It is simply frozen. Thus Britain is getting the worst of both worlds. She has much unrequited exports but hardly any unrequited imports. Consequently the amount of Britain's trade balance does not indicate the extent of the deficit on the current balance of payments on trading account. Much of the British exports yields neither goods nor cash, at any rate for the time being. Much more will never yield any goods or cash, since it represents the liquidation of old sterling balances. In this respect the situation is most unsatisfactory. Although the sterling balances of India, Egypt, Iraq and a few other countries have been funded, a large amount belonging to other countries remains unfunded and can therefore be used for current purchases of British and Sterling Area goods. It is no wonder the British loss of gold is in excess of the adverse trade balance.

Moreover, there is also much illicit outflow of capital. The British exchange control is very far from watertight. While a large number of minor offenders who had overspent their allowances while on holiday abroad have been caught and heavily fined, in other directions capital is escaping on a large scale. The departure of Egypt has stopped one of the most notorious loopholes through which British capital had been pouring out. But large amounts find their way to Switzerland or to the Western Hemisphere through South Africa and Eire. As both countries belong to the Sterling Area there is nothing to prevent a transfer of capital to Dublin or Cape Town. And although exchange control in Eire and South Africa is supposed to be identical with the British, in practice it is not nearly as effective.

There is also a wholesale repatriation through smuggling of pound notes hitherto held abroad. In recent weeks very large amounts are believed to have evaded the control; the decline of the note circulation of the Bank of England is attributed in part to the return of such notes. Their proceeds are also used in payment for purchases of British goods, which means that to that extent Britain receives no foreign exchange for her exports.

To a very large degree the remedy lies in the hands of the British authorities. Sir Stafford Cripps, like his predecessor Mr. Dalton, is, however, reluctant to resort to much-needed drastic steps such as the blocking of the unfunded old sterling balances or the prevention of export to countries which do not pay in goods or in convertible exchange.

Reports Improved Home Building Outlook in New York Area

Emanuel M. Spiegel, Regional Vice-President of National Association of Home Builders, says private builders in and around New York will erect 50% more housing in 1948 than in 1947, and points to heavy applications for FHA loans, resulting in exhaustion of funds for that purpose, as evidence of high attainment in private home building. Fears Marshall Plan may lead to materials shortage.

At the Home Builders Conference in New York City on Dec. 1, sponsored by the Home Builders Council of New York, New Jersey and Connecticut, Emanuel M. Spiegel, President of Home Builders Association of Northern New Jersey and Regional Vice-President of the National Association of Home Builders, painted a bright picture of the progress of home building in the New York metropolitan area.

Emanuel M. Spiegel

"We builders in the metropolitan area of New York have every reason to be extremely proud of the job which has been accomplished to date since V-J Day," Mr. Spiegel reported. "When we consider that it is but a short five months ago since we were relieved of many of the controls and restrictions with which we were burdened all through the war period and up to July 1, 1947, our accomplishments seem all the more remarkable."

Continuing his remarks, Mr. Spiegel stated:

"From information made available to us by the Federal Housing Administration and recognized survey services, I can report that for the area of Brooklyn, Queens, Nassau and Suffolk Counties, from Jan. 1, 1947, to Sept. 30, 1947, about 25,000 units of housing were started, of which approximately 80% will be completed before the end of the year. During the year 1946 about 14,500 units were started, of which approximately 75% were not completed until early in 1947. During the first four months of this year new starts were retarded because of the uncertainties of wage scales increasing costs of materials and some resistance on the part of the buying public created by much adverse publicity directed at us from antagonistic groups and even from high Washington officials. I am informed that prior to the war years these four counties in New York produced annually approximately 18,000 housing units. For many reasons the rental housing program in these areas got off to a slow start, but more recently announcement has been made by the local FHA office of several tremendous Title 608 projects about which you have all read. I am informed that many more such projects are in process and that announcement of actual commitments will be forthcoming very shortly.

"The State of New Jersey at this moment ranks ahead of the country in the erection of rental housing units actually under construction. Many of these have been completed and are occupied. FHA reports indicate that about 8,800 units of rental housing were committed under Title 608 up to Nov. 1, 1947. Many more applications are in process. New Jersey jumped far into the lead in the early days of the 608 program and the results are evident throughout the State.

"In the matter of sale housing, the best reports available indicate that for the period ending Sept. 30, 1947, approximately 15,000 units have actually been started and that of this number approximately 11,000 are already completed. Of the total number, FHA has issued commitments covering about 30% of the foregoing. During the year 1946 approximately 17,000 units in all classes were started, but we estimate that about 75% of these units were not completed until the spring of 1947. All of us know that the large number of starts in 1946 were considerably hampered by great shortages of labor and material and most of the 1946 starts were not completed until last spring.

"Many builders in Westchester, Nassau, Suffolk and several counties in New Jersey have been idle since the early days of the war and up until the controls were removed in July of 1947 since their type of work was entirely prohibited. These builders of homes in the $20,000 and up bracket are today back in business and we are beginning to see many more units in the higher-priced housing being erected in these areas.

"It is my opinion from the information I have been able to gather from reliable sources and from private builders throughout this entire area, that our industry is prepared to erect during the year 1948 at least 50% more housing than the total starts for 1947. FHA reports a tremendous volume of applications filed with its offices during the first week of November, 1947. Commissioner Richards of FHA reported recently that up to Nov. 1 applications had been filed at the rate of $50,000,000 per week, but that since Nov. 1 within a period of four days a total dollar volume of $404,000,000 in applications were filed with regional offices throughout the country. It was for this reason that Commissioner Richards found it necessary to discontinue accepting applications for FHA mortgage commitments until Congress gave further authorization to it. At the moment I can report that the Senate Banking Committee has unanimously recommended to Congress the passage of a Bill authorizing FHA to ensure an additional $1 billion to cover the period up to March 31. This is indeed welcome news and will enable FHA to process applications during the coming winter months.

"This Home Builders Council, which consists of builders' associations active in the metropolitan area of New York, was formed early in 1945. All of these local associations are affiliated with the National Association of Home Builders. I need not recall to you present here the tremendous struggle which we as an industry had to endure since 1941. The creation of the National Association was a most fortunate step on the part of the leaders of our industry.

"This Home Builders Council was formed as a result of necessity. Many of us in this area were attempting to solve our individual problems by going directly to the government agencies and attempting to iron out strictly local problems. As individuals we found it impossible to break down the barriers created by government bureaucrats who generally handle local problems according to a national pattern. We found that our labor and material costs locally are probably the highest in the country, but individually we were unable to convince the authorities in Washington of this fact.

"It was thereupon decided by a small group in this area that it would be advantageous to organize our local associations into this Home Builders Council and present our problems collectively. Thereupon, a committee headed by Alfred Gross was created for the purpose of presenting our particular problems to the Washington authorities. Accordingly, upon presentation of accurate facts and information to Messrs. Foley, Wyatt and thereafter Mr. Creedon, this committee was able to have created a $10,000 ceiling for this area rather than the $8,000 ceiling which was proposed nationally. This was accomplished early in February of 1946. When, in the spring of 1946, Al Gross and his committee offered further evidence that we could not satisfactorily create houses at a $10,000 ceiling, this ceiling was raised in the metropolitan area of New York.

"All of you are familiar with the directive issued by Mr. Creedon's office as Housing Expediter, which restricted the size of a house to 1,000 square feet. Again, our Washington committee headed by Al Gross was able to have this restriction raised to 2,000 square feet in February of 1947.

"In the early days of Title 608 when many of us found objections to the processing of applications under this title, Al Gross, who meanwhile had been designated by our National Association as Chairman of the Mortgage and Finance Committee, worked out many solutions of the problem with the top officials of FHA.

"At the moment Congress is considering legislation commonly referred to as the "Marshall Plan," to assist the needy nations of Europe. This morning we have heard discussion as to the implications of this plan as it may affect our industry. Unquestionably, the results of the Marshall Plan will have repercussions with respect to our supply of materials. This important factor coupled with current recommendations being made to Congress and requested by President Truman for some system of controls, will materially hamper the housing program for 1948. We must be constantly vigilant so that our industry is not once again encumbered with unjustifiable restrictions and controls."

Illinois Brevities

On Nov. 21, Paul H. Davis & Co., Chicago, and Union Securities Corp., New York, and associates publicly offered $3,000,000 of 3¼% debentures due Aug. 1, 1960, of Celotex Corp., at 97½ and interest. Of the net proceeds, $2,500,000 will be used to pay off term bank loans, and the balance will be added to the general funds of Celotex Corp. Included among the underwriters were A. C. Allyn & Co., Inc., Central Republic Co. (Inc.) and Kebbon, McCormick & Co., also of Chicago.

Another group of underwriters, which was also headed by Paul H. Davis & Co. and Union Securities Corp., on Nov. 25 offered 41,270 shares of Keystone Steel & Wire Co. common stock (no par value) at $45.87½ per share, for the account of National Lock Co., a Keystone subsidiary. Other Chicago bankers interested in this offering were: A. C. Allyn & Co., Inc.; Central Republic Co. (Inc.), and Dempsey & Co.

Sales of the Keystone company for the first quarter, ending Sept. 30, 1947, totaled $6,744,750, a gain of 15% over the sales of $5,855,760 for the same three months last year. Net profit amounted to $816,456, compared with $916,148 for the three months ended Sept. 30, 1946. On a comparative basis in regard to the number of shares outstanding for the period, the first quarter earnings were $1.31 per share as against $1.37 per share last year. A bank loan of $1,100,000 has recently been negotiated, in order to augment working capital.

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In connection with the proposed financing program of International Harvester Co., its stockholders will at a special meeting called for Jan. 28, 1948, vote on authorizing the directors of the company to issue not more than $100,000,000 principal amount of debentures, which will be convertible into common stock. The syndicate which will underwrite these debentures will be headed by Glore, Forgan & Co. of New York, and Harris, Hall & Co. (Inc.) and William Blair & Co. of Chicago. The proceeds are to be used for expansion.

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An investment syndicate headed by Sills, Minton & Co., Inc., Chicago, and including, among others, Straus & Blosser, First Securities Co. of Chicago and Shillinglaw, Bolger & Co., also of Chicago, on Nov. 25 publicly offered 90,000 shares of 75-cent cumulative convertible preferred stock (par $10) of Liberty Loan Corp. at $15 per share, the greatest part of the proceeds of which were added to working capital. A total of only $25,760 was used to reimburse the treasury of the corporation for the redemption of its 2,240 shares of 50-cent cumulative convertible preferred stock on Nov. 1, 1947, at $11.50 per share.

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On Nov. 18, an underwriting syndicate headed by The First Boston Corporation, and including, among others, Central Republic Co. (Inc.), Harris, Hall & Co. (Inc.), Bacon, Whipple & Co. Dempsey & Co., Sills, Minton & Co., Inc., and Straus & Blosser, all of Chicago, offered publicly 125,000 shares of $2 par value common stock of American-Marietta Co. (Ill.) at $15 per share. The proceeds will be added to working capital.

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On Nov. 13, Central Republic Co. (Inc.) and A. C. Allyn & Co., Inc., offered publicly an issue of $1,500,000 Dodge Manufacturing Corp. (Ind.) 15-year 4% sinking fund debentures due Oct. 1, 1962, at 100 and interest, the net proceeds to be used to redeem the outstanding $785,000 15-year 4% sinking fund debentures due May 1, 1959, and to reduce outstanding bank loans.

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A. G. Becker & Co. Inc., of Chicago on Nov. 13 headed a group of investment bankers which publicly offered $6,000,000 Heyden Chemical Corp. 15-year 2⅞% debentures due Nov. 1, 1962, at 100 and interest, the net proceeds to be used as follows: $2,000,000 to prepay a bank loan; approximately $1,300,000 for expansion of the facilities of Heyden's Princeton (N. J.) plant; and the balance added to working capital.

* * *

The common stockholders of record Nov. 13, 1947, of Northwestern Public Service Co. subscribed for 17,686 shares of $3 par value, out of 82,000 shares offered to them, at $9.75 per share. Subscription rights expired Nov. 26, and a group of underwriters headed by A. C. Allyn & Co., Inc., and including, among others, Paul H. Davis & Co., Ames, Emerich & Co., Inc., Cruttenden & Co., Stifel, Nicolaus & Co., Inc., and Julien Collins & Co., also of Chicago, publicly offered the unsubscribed balance (64,314 shares) at the same price. The net proceeds are to be added to Northwestern's general funds to be used for corporate purposes.

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Ames, Emerich & Co., Inc., on Nov. 18 also participated in an offering of 80,000 shares of Speer Carbon Co. no par value common stock at $14 per share, of which 33,766 shares are for the account of the Speer company and 46,234 shares for the account of a stockholder. The net proceeds to the Speer company are expected to be used to finance in part the purchase of a plant at Punxsutawney, Pa., now leased by it.

Straus & Blosser and Brailsford & Co., together with others, on Nov. 25 publicly offered 50,000 shares of 5% cumulative convertible preferred stock at par ($10 per share) and 100,000 shares of $1 par value common stock at $5.62½ per share of Munising Wood Products Co., Inc., for account of selling stockholders.

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Kebbon, McCormick & Co. also participated to the extent of 5,000 shares in the public offering on Nov. 18 of 40,000 shares of $1 par value common stock of Carpenter Paper Co., Omaha, Neb., at $52 per share.

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A group of underwriters, which included, among others, A. G. Becker & Co. Inc., Bacon, Whipple & Co., Farwell, Chapman & Co. and Sills, Minton & Co., Inc., on Dec. 3 publicly offered 150,000 shares of no par value common stock of Mack Trucks, Inc., at $51.25 per share, the net proceeds to be used to repay $4,000,000 bank loans, and the balance added to working capital. The issue was oversubscribed.

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Participating also in an offering on Dec. 4 of 75,000 shares of Appalachian Electric Power Co 4.50% cumulative preferred stock at $100 per share (flat) were Central Republic Co. (Inc.) and Harris, Hall & Co. (Inc.).

* * *

The Sanitary District of Chicago, Ill., has called for redemption on Jan. 1, 1948, $8,425,500 of refunding bonds, $500,000 of construction bonds and $50,000 of land damage bonds, or a total of $8,975,590 bonds in all. Payment will be made at The First National Bank of Chicago.

* * *

The Chicago Park District has called for prepayment and redemption on Jan. 1, next, $300,000 of Park Improvement bonds of 1946 at 100 and interest. Immediate payment of the called bonds is being made at the office of the Treasurer of the Chicago Park District or at The First National Bank of Chicago.

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By order of the U. S. District Court for the Northern District of Ohio, Western Division, Owens-Illinois Glass Co. offers for sale as a unit all real estate, buildings, machinery, production equipment (not including molds) located at Chicago Heights, and which were a part of the assets acquired by Owens-Illinois from Kimble Glass Co. on July 1, 1946. The purchase price is to be paid in cash.

* * *

The production and sales of the Kropp Forge Co., Chicago, for its fiscal year ended July 31, 1947, were the largest in its peacetime history. Actual shipments were 4,948,842, compared with $4,236,746 in the preceding year. Net earnings after provision for taxes were $272,639, as against a loss of $175,132 in the previous year, and were the second highest in the company's history. A backlog of orders in excess of $2,000,000 was reported to be on hand, equal to approximately four months' production on the basis of current operations.

* * *

R. F. Blash, President of Webster-Chicago Corp., which has contracted for the construction of an addition to its Chicago plant, has announced that sales for the 10 months ended Oct. 31, 1947, amounted to $9,901,344, which compares with approximately $8,090,000 for the full year 1946. It was expected that sales for the full 12 months of 1947 would be about $12,000,000.

* * *

Spiegel, Inc., reports consolidated net sales for November, 1947, of $14,238,713, an increase of 11.04% over the corresponding month last year. For the first 11 months of 1947, net sales amounted to $111,322,949, a gain of 13.83% over the same period in 1946.

* * *

H. V. McNamara, President of National Tea Co., Chicago, on Dec. 2 announced that an extra dividend of 37½ cents per share will become payable on the common stock on Jan. 2, 1948, to holders of record of Dec. 16, 1947, and indicated that the quarterly dividend rate on that issue for 1948 would be 37½ cents, as compared with 25 cents in 1947. An extra of 25 cents was also paid on Jan. 2, 1947.

Sales for the four weeks ended Nov. 29, 1947, amounted to $18,916,488, as compared with $14,771,099 for the same period in 1946, an increase of 28.1%. For the year to Nov. 29, 1947, sales totaled $196,193,448, as compared with $140,830,090 in the corresponding period last year, a gain of 39.2%. The number of stores in operation increased from 705 in 1946 to 708 at Nov. 28, 1947.

* * *

The directors of Ero Manufacturing Co., Chicago, on Nov. 26 declared an extra dividend of 10 cents per share, in addition to the regular quarterly dividend of 12½ cents per share on the common stock. The quarterly payment will be made on Dec. 15 to holders of record Dec. 5, 1947, and the extra on Jan. 15, 1948, to holders of record Jan. 2, 1948.

The Investor Looks at London

By COL. HERBERT G. KING

Member, New York Stock Exchange

Col. King predicts Russia will give way in opposition to peace treaties for Europe, and that is why shrewd investor looks with hope to London. Says communism is declining and Russia's weakness is its bad internal situation.

The astute investor expects something constructive to come out of the Council of Foreign Ministers now meeting in Lancaster House, London, for the picture has greatly changed since the same men (except for Marshall replacing Byrnes) started disagreeing over peace treaties just two years ago. The great amount of tax selling currently taking place in the stock market has given the market an appearance of being a lot weaker than it really is and many people have falsely attributed this unsettlement to a fear of a disagreement in London. That is why great bargains are now being eagerly picked up by far-sighted investors who believe that an agreement is actually not far away.

Col. Herbert G. King

In the last two years the Communists have lost a lot of ground throughout the whole of Europe and Stalin has slipped considerably within his own country. In addition, he is in poor health and is surrounded by a group of 12 ministers, each of whom secretly believes that he carries a marshall's baton in his own pocket.

The world has expected much from the United States because of our wealth and production and our small losses in the war. Nobody expected much from Russia but her claims have been so sweeping and her prophesies that capitalism was about to topple, that they are acting as a boomerang and it has now become evident that Russia has nothing to offer but poverty, misery and starvation. She cannot even produce goods or food enough to satisfy the needs of her own people. The Soviet troops have also decreased the prestige of Soviet Russia wherever they have been. They swarmed in proclaiming themselves as liberators, but turned out to be locusts. They are badly dressed and behaved, poorly fed and their equipment woefully inadequate. They suffer so from comparison with our troops that they are kept out of sight as much as possible. The Soviet policy of appropriating everything and shipping it back to Russia has aroused great resentment wherever they are and wonder at their needing so much.

Very few people realize the actual weakness of Soviet Russia. Over 12 million Russians were killed, the most productive areas have been destroyed and her industrial plant and transport system are in disrepair. No longer can she supply her own population with everyday necessities. The people have suffered so much that there is no leader in Russia today strong enough to lead them into another war. The country's physical condition is not conducive to war and added to that is our possession of the atomic bomb. Stalin knows we will never use it unless we are attacked, but he has a thoroughly realistic knowledge of the value of the bomb to us in the event of hostilities.

The Communists have long preached that the United States represented all that is decadent in modern life, but Europe has found that our help has meant food, raw materials, machinery, loans and aid without interference. It wants and needs what we can give and Russia cannot, material, help, and we offer what Russia will not, political freedom.

The Soviet leaders have stayed in power by telling their people of foreign hostility and it is becoming increasingly difficult to convince them that the whole world is against them and that they are the only one who are always in the right.

Molotov now finds himself where he has to do something to help work out a peace treaty. The Russian bluff has run its course. From now on they must cooperate.

On the other hand, Secretary Marshall cannot afford to be tough, walk out and threaten to make a separate peace with Germany. That would not work, as we do not want to set up a new government and pump into Germany millions of dollars to help the Germans and then have the Russians siphon it all out as reparations.

The time is ripe for something to be accomplished and the whole world is clamoring for some results. That is why the shrewed investor looks with hope to London and is confident that some good news will soon be coming forth.

D. T. Moore to Admit

D. T. Moore & Co., 50 Broad Street, New York City, members of the New York Stock Exchange, will admit Frances Moore Merrill to limited partnership on Jan. 1, 1948.

With E. E. Mathews Co.

BOSTON, MASS.—Louis F. Dow has been added to the staff of Edward E. Mathews Co., 53 State Street.

Joins Hallgarten Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Alfred H. Gross has been added to the staff of Hallgarten & Co., 231 South La Salle Street.

Wm. E. Judge Joins Kobbe & Co. Staff

Kobbe & Company, Inc., 55 Liberty Street, New York City, announces that William E. Judge is now associated with the firm as a trader. Mr. Judge has been in Wall Street for over 20 years and, until recently, was manager of the trading department of John H. Valentine Co.

J. H. Denton in N. Y. City

J. H. Denton is engaging in a securities business from offices at 112 West 81st Street, New York City. In the past he was with Baron G. Helbig & Co.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Bank Stocks

The 149th annual stockholders' meeting of Aaron Burr's Manhattan Company was held at noon on Dec. 2, 1947. Now known as the Bank of the Manhattan Company, it is the only one of New York's large commercial banking institutions to hold its annual meeting prior to the closing of its books at the year-end. Consequently, reported earnings are based on actual figures for the first nine months and estimated figures for the last three months.

On this basis, net operating earnings were reported at $2.00 per share, compared with $2.56 in 1946, a decline of approximately 22%. Net realized security profits were reported at $0.18 per share, compared with $0.85 in 1946. Total net operating and security profits are therefore $2.18 per share, equivalent to 1.82 times the annual dividend rate of $1.20.

The stock is currently selling around 24⅜, equivalent to approximately 12 times net operating earnings, and providing a dividend yield a shade under 5%.

Bank of Manhattan and Bankers Trust are the only large New York City banks whose loans and discounts now exceed their holdings of Governments. Compared with a year ago the figures are as follows:

	—Sept. 30, 1946—		—Sept. 30, 1947—	
	U. S. Govts. ($000)	Loans & Discounts ($000)	U. S. Govts. ($000)	Loans & Discounts ($000)
Bank of Manhattan	442,125	385,152	371,786	429,810
Bankers Trust	724,519	499,779	558,311	592,513

As of Nov. 30, 1947, Manhattan's Governments amounted to $383,800,000; the average maturity is 4 years 9½ months to actual due dates and 3 years 2¼ months to earliest call dates. Approximately one-half mature within five years and one-half between five and ten years.

The average yield on the bank's Governments is 1.61% per annum for 1947, compared with 1.53% in 1946; the average rate of return on all earning assets was approximately 2.0% for the 11 months of this year, compared with 1.86% for the year 1946, as reported by Chairman J. Stewart Baker at the stockholders' meeting.

He also reported that gross operating income this year will be about the same as in 1946, despite the fact that funds available for loans and investments are averaging $110,000,000 less. Net is lower, however, because of higher total operating expenses estimated at 6% more than in 1946. Payroll costs, which increased 14%, account for about half of total expenses.

With regard to 1948, Mr. Baker stated: "Unless there is a drastic change for the worse in economic conditions, we confidently believe that our efforts will result in increased net earnings for 1948."

Bank of Manhattan's trend of earnings and book value since before the war, on a per share basis, has been as follows:

Year	Net Oper. Earnings $	Net Secur. Profits $	Net Recoveries Reported $	Total $	Divs. Paid $	Book Value $
1939	1.11	0.57	---	1.68	0.90	23.26
1940	1.14	1.03	---	2.17	0.90	23.44
1941	1.37	0.43	---	1.80	0.90	23.73
1942	1.81	—0.65	0.29	1.45	0.90	24.28
1943	2.01	1.32	0.47	3.80	0.90	25.03
1944	2.40	0.95	0.76	4.11	0.95	26.20
1945	*3.12	0.55	0.33	4.00	1.00	30.26
1946	2.56	0.85	0.81	4.22	1.20	31.55
1947 Estimated	2.00	0.18	---	2.18	1.20	†32.06

*Includes $0.40 tax savings. †Sept. 30, 1947.

It is interesting to observe that since Dec. 31, 1939, book value per share has increased by $8.80, equivalent to a gain of 37.8%.

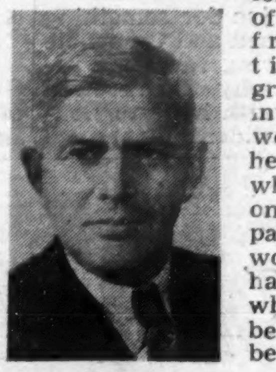
Let's Stay Free

By C. E. WILSON*

President of General Motors

Prominent industrialist, asserting Socialism means dictatorship and slavery, upholds freedom of our political and economic system. Blames Government policies, food shortages, and European aid program for inflationary trends, and says chief problem is to produce more and to increase workers' economic security. Decries new Government controls and urges lower cost of Government, extending hours of work, and elimination of regulations impeding production and distribution. Lists 10 recommendations for remedying shortages.

About ten days ago I was discussing the subject of my talk this evening, "Let's Stay Free," with one of my friends. He said he didn't think the title was intriguing. I replied, "That's because you have always been free." We Americans have been free so long that most of us take our free institutions for granted. And in spite of all we read and hear about what is going on in other parts of the world, we can hardly realize what it would be like not to be free.



C. E. Wilson

Politically, and in a true social and economic sense, a long step backward is being taken in many parts of the world. We again have slavery in Europe. Old World ideologies in serious conflict with our American concept of a free society are being advocated and promoted by those who claim that their philosophy is "liberal," "constructive" and "in the interest of all the people." As a matter of fact, their philosophy is reactionary, destructive and when put into effect reduces the standard of living and enslaves the people.

It is well for us to remember that our American political philosophy after 175 years is still the new, liberal and revolutionary philosophy in the world today. On its record it is the best political organization that has ever been developed to promote the well-being of all the people. It recognizes the rights of the individual and is based on promoting the initiative of the millions and not the dictatorship of the few. Under it our country has made great progress in developing social and economic values and in what our forefathers called the "pursuit of happiness."

Socialism Means Dictatorship

The history of the world shows that socialistic theories when put into effect on a large scale cannot be maintained without police state methods, without dictatorship, without loss of liberty and opportunity, without degradation of the mass of the people. So, I say, let's look at the record. Let's look at what our system has accomplished in our own lifetime. If all Americans would do this, then I am sure they would all say with me, "Let's Stay Free."

What is this record of what Americans have accomplished as compared with the rest of the world? Briefly, with 6% of the world's area and 7% of the world's population, we have 46% of its electric power, 48% of its radios, 54% of its telephones, 59% of its steel capacity, 60% of its life insurance policies, 85% of its automobiles and 92% of modern bathtubs.

Social progress has kept pace with and has been made possible by this material progress. Music and art and all forms of healthful recreation flourish. We have greatly increased the number and quality of our schools and hospitals. In 1900, one-third of the children aged 17 were in high school. Now two-thirds of them are. In the last 50 years the death rate among children up to six years of age has been reduced approximately 75% and the death rate between ages of 6 and 60 has been reduced 40%. These are only a few of many examples of our social progress.

In the face of the record I do not understand how any American can doubt the soundness of our institutions. I do not understand how he can even consider adopting policies and principles which when put into effect by governments, either in ancient times or today, have always resulted in a loss of personal liberty and an increase in human misery. Is it any wonder, then, that I repeat, "Let's Stay Free."

Outcome of War

Our most acute current economic and social problems are a direct result of the war. Americans have accomplished so much in real human progress, especially during the last 50 years, that much is being expected of us by the rest of the world. We Americans are so impatient to continue the progress interrupted by the two wars that perhaps we too are expecting too much in too short a time. As a matter of fact, only when we look at other countries of the world can we realize how good a job has been done here at home. America is prosperous. Americans are working at high wages and although prices are high—much higher than we would like to have them—Americans have more of the good things of life and a higher standard of living by far than any other people in the world or, for that matter, than Americans themselves have ever had before.

Two years ago many in high places in government, labor and even in industry predicted serious unemployment immediately following the war. They said as many as 10,000,000 people would be without jobs. They used this statement to justify an immediate change in the work-week from the 48 hours worked during the war to the 40 hours worked prewar. They even stated that the real problem of Americans was to learn how to live 50% better while working less. They apparently feared over-production. They were still promoting an economy of scarcity. The results of the last two years have proved how wrong these poorly informed prophets were. Perhaps if they had been permitted to "plan it that way" we would have had the unemployment.

There is no way for the average American to have more unless we produce more. We cannot eat food that has not been raised. We cannot ride in a motor car that has not been manufactured.

Problem to Produce More

The real problem of Americans is the same as that of the rest of the world. It is to produce more. Only by doing this can we reasonably satisfy the needs and desires of our people and at the same time meet the high cost of government while sharing reasonably with the rest of the world.

There is a world food shortage but in appraising it we must keep in mind that there has always been a world food shortage. Probably at no time has more than 25% of the world's population regularly had all the food they needed or would have liked to eat. The question is how much can we share or are we willing to share with others and with whom. It is one thing to donate surplus food or to share reasonably at some sacrifice with the unfortunate of other countries. It is something else to be asked to share their misery when it is of their own making.

All of us will have a better understanding of this situation if in our thinking we separate charity and humanitarian considerations from political and economic considerations. On a humanitarian basis what would the American people be willing to do for the unfortunate men, women and children of Western Europe if their present condition had resulted from some great natural catastrophe such as an earthquake rather than from a war in which we had an important part? On the basis of political and economic considerations, what are our commitments, either moral, on account of our stated purposes during the war, or formal as part of our international agreements made during or since the war? Unless we separate these problems our motives will be confused and misunderstood. We may find ourselves in the situation of the Alsatian farmer who went to town to sell a jar of smearcase, or what some of us call cottage cheese, and a jar of apple butter. He had only one spoon and after selling smearcase and apple butter to several customers neither he nor they were able to tell which was which.

Within the practical limits of our resources we cannot let the people of Europe starve this winter, even though to help them will deprive us of some goods that we also need badly at home, or because shipping this food abroad will contribute to continuing our present high food prices for a longer time.

We must also appraise in dollars and materials what it takes to make good on our other commitments—how soon they can be fulfilled—and also how soon we can be relieved of this burden by receiving from other countries materials of equal value. Whatever we do now should be done with full realization of the facts

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*An address by Mr. Wilson at the Annual Banquet of the 52nd NAM Annual Congress of American Industry, New York City, Dec. 5, 1947.

Production, Not Controls, Will Curb Inflation

By FRANK W. SUTTON, JR.*
President, New Jersey Bankers Association
President, The First National Bank, Toms River, N. J.

Contending bankers are well qualified to determine their own financial terms, Mr. Sutton opposes new credit controls and defends consumer financing as not conducive to inflation. Says increased production is essential to curb inflation and tax relief is needed. Urges banks increase ratio of capital to deposits and foresees higher bank loan rates.

The end of consumer credit controls on Nov. 1 marked an eventful day in American banking. For the first time in several years it is now possible for banks to extend credit on terms and conditions proscribed by their own regulations, but it may not continue. Prior to Nov. 1, the Consumer Credit Committees of the New Jersey Bankers Association and the American Bankers Association prepared and forwarded to all member banks schedules of terms and conditions that were believed to be conservative and reasonable. Reports received since Nov. 1 would indicate many bankers are not granting consumer credit loans on terms more liberal than were permitted under Regulation "W." I have yet to hear of any banker permitting more than 24 months for the repayment of loans on new cars and more than 12 to 18 months on second-hand cars excepting new cars resold shortly after they were purchased. The down payments required on cars are continuing at one-third of the purchase price. The reports also indicate safe and conservative policies are being followed in all other consumer financing.

Frank W. Sutton, Jr.

Some dealers in second-hand automobiles and some equipment dealers are advertising no down payments and long terms for repayment, but I know of no bankers financing such sales.

More Production, Not Credit Restrictions

Bankers believe they are very well qualified to establish their own financing terms and are definitely opposed to any new credit restrictions. There has been a very large increase in the amount of consumer credit outstanding and this increase occurred during the period of Regulation "W." Notwithstanding it was in force from September, 1941 to Nov. 1, 1947, the spiral of inflation continued. Now we are told consumer credit controls will stop inflation. It seems to me we need to work more and produce more. No one suggesting remedies to Congress cares to mention this solution. Since the end of the war the records of our banks show clearly the first consumer goods were acquired by those having the cash with which to pay and gradually the percentage of those paying cash has been decreasing. If we are to maintain our present economy we must continue our high production and increase it wherever possible. Already dealers are finding their inventories increasing in many lines and it is not as easy to find purchasers as it was. Many bankers were of the opinion production would have decreased in some lines had Regulation "W" been continued.

Since the war many people have been priced out of the market, where the cash was not available because they were unable to meet the terms required. This is particularly so in respect to automobiles. If credit is not available on terms borrowers can meet, savings accounts and government bonds will be used by the people to acquire goods deemed necessary. Many have already waited years to acquire what they desire.

Bankers Do Not Want Inflation

No banker desires further inflation. We know how destructive it can be. In all of our credit extensions, whether or not credit regulations are imposed, it will be the duty, and I know the desire of all bankers, to avoid purely inflationary loans.

The increase in the cost of operating our banks has continued throughout the year with no indication of a decrease for some time to come. In our country banks, the increase in risk assets is increasing their earnings sufficiently to offset the increase in operating expenses, but this is not so in many of our larger institutions.

Increased Loans Offset by Decreased Investments

In the first six months of this year loans in our nation's banks have increased $2,769,000,000 and in the same period investments in securities have decreased about the same amount. This is as it should be. All of us are interested in the growth and development of our communities. The housing shortage is still a problem, although not as serious as it was. It will be several years before normal conditions exist. It is our desire to have our homes, stores banks, public buildings, repaired and modernized. New school buildings, highways, bridges, airfields and other things too numerous to mention are needed. All cost money and require credit. It is quite evident we are headed for a continuous credit expansion for some years to come. Every bank increasing its risk assets is putting on its books losses for future months or years that will develop as economic changes occur. This is a normal phase of banking that should be expected and in anticipation of such losses adequate provisions should be made to establish reserves against which future losses may be charged by setting aside a reasonable part of all interest and discount received.

Capital Position of Banks

Once again I would like to urge all bankers to review their capital positions in relation to their deposit liability and risk assets. It is unlikely we will ever have a more favorable opportunity to procure new capital from investors.

Mr. Preston Delano, Comptroller of the Currency, while serving as Acting Chairman of the Federal Deposit Insurance Corp., gave me some figures I know will be of interest to you. The ratio of total capital accounts to total assets of all operating banks in the United States increased from 6.7 on Dec. 31, 1946 to 7.0 on June 30, 1947.

The ratio of banks in F.D.I.C. District No. 2, of which North Jersey is a part, is the second highest in the country. It in-

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*An address by Mr. Sutton at the Mid-Year Trust & Banking Conference of the New Jersey Bankers Association, Asbury Park, N. J., Dec. 3, 1947.

Inventory Pricing Under Present Conditions

By MAURICE H. STANS*
Certified Public Accountant

Accountant, taking note of growing interest in inventory pricing because of current inflated values, high volume of business, and resulting large reported profits, sees growing fear on part of business management that they are paying high taxes on profits which may be offset by subsequent losses. Points out valuations cannot be exact, but supports view accountants' rules are a better gauge than whims and opinions of individual business managers. Sees no need for changing accounting valuation principles.

Introduction

It is easy to set the stage for this subject. Business concerns, large and small, are approaching the end of another postwar year characterized by inflated prices, a high volume of business and in most cases large profits. Nationwide, inventories are at the highest volume in history and are still trending higher. While part of the national increase in inventories is due to higher price levels, the physical quantity of goods held by manufacturers, distributors and dealers is also in most categories in record amounts.

Maurice H. Stans

Underneath the visible evidences of prosperity and profits that exist is nevertheless a universal feeling of insecurity about the future. Business executives are continually being told by economists that there is bound to be an important price reaction somewhere ahead, that the seriousness of that reaction will depend upon a great many incalculable factors inherent in the domestic and foreign situation, and that the timing is highly uncertain, but that inevitably commodity prices (and resultant product prices) are going to be lower. This thought, of course, suggests the likelihood of future inventory losses at some time, the extent of the losses and the ability of the individual business to bear them being dependent in great part upon the impact of many world-wide uncertainties.

The fear that is generated under these circumstances has brought about a renewal of interest in the problems of inventory pricing and in the allied subject of inventory reserves. Lurking in the background is not only the unwillingness of business managements to incur and pay income taxes at high rates on profits which might prove in restrospect to be quite temporary and partially offset by subsequent losses, but also the greater unwillingness to be accused, by social reformers or business critics, of making excessive profits, in view of the uncertainty of being able to retain them at all.

On the other hand, the title of this discussion, with its emphasis on present economic conditions, is somewhat deceptive, because it implies that accounting principles and considerations may be different in times such as this than at other points of the business cycle. That is, of course, not true. The basic concepts of inventory pricing cannot be different at an upward point of a cycle than at a downward point. But it is true that economic events do exert their pressures on accounting practices, in the sense that times like these do create many practical problems of inventory pricing that are not the same as the problems when markets are declining.

It is no exaggeration to say that accountants have been wrestling with the subject of inventory pricing ever since the dawn of accounting—at least, ever since the realization that there could be no true measurement of business profits for an enterpreneur with a stock of goods unless he took into account some evaluation of that stock of goods. No exact method of inventory pricing has ever been successfully devised for all situations and none probably ever will.[1]

Need for Principles

It is clear then that the approach to inventory pricing must be in the light of the practical purpose for which inventories enter into business accounting. That purpose is, of course, the development of useful financial reports, and in particular the faith-

1 As a matter of fact, there are only three recorded instances in history and literature in which the secret of absolute or exact valuation of a stock of goods has been asserted, and these are all outside the realm of accounting as we know it. Thomas Paine, in his "Crisis," put it in a supernatural way:

"Heaven knows how to put a proper price upon its goods" but practicing accountants are not in a position to obtain this formula in time to make it useful. Then the great Emerson in one of his essays implied that valuation is at least superhuman:

"In nature there is no false valuations." Finally, it is reported that, centuries ago when the designing Cleopatra gave Anthony an inventory of her assets, she said:

"This is the brief of money, plate, and jewels I am possess'd of: 'tis *exactly* valued."

Shakespeare unfortunately did not disclose, by footnote or otherwise, whether Cleopatra used "lifo" or "fifo" in her calculations, or whether she observed the "lower of cost or market" rule; and of course, there was then no Securities and Exchange Commission to impose this obligation upon him, so that the secret is lost.

(Continued on page 29)

*An address by Mr. Stans delivered at meeting of the Illinois Manufacturers' Association, Chicago, Ill., Dec. 2, 1947.

Securities Salesman's Corner

By JOHN DUTTON

There Are People Who Can't Be Sold—They BUY!

If securities sold themselves—we wouldn't need salesmen. The "know how" acquired by a competent salesman cannot be learned from books—it also takes experience and practice. However, the same principles of sales psychology are applicable to the securities business as in any other line of sales endeavor. You can have the most attractive investment, or speculation, for offering to the public; but if you don't know how to make them WANT IT you're licked.

This week let's investigate the sales process which is involved when you go out to sell the fellow who LIKES TO THINK THAT HE MAKES UP HIS OWN MIND. He is a pretty common type of everyday human being, that you meet on every street corner. The woods are full of this type. Somewhere he has the idea in the back of his head that he has a mind of his own. He is usually a thinking fellow and tries to be well informed on most subjects. He is an individualist. He has a highly developed ego—but he won't admit it anymore than he would admit that HIS OUTWARD SHOW OF CONFIDENCE IN HIS OWN JUDGMENT, IS IN REALITY ONLY A BLUFF TO HIDE HIS INNER SENSE OF TIMIDITY. Since he is intelligent, he realizes that he must rely upon someone who knows more than he about the product he expects to buy—so he'll check up his salesman pretty carefully before he gives him the go sign. If he finds such a salesman he will become a loyal customer, providing of course, that he is satisfied with the purchases that he makes. This fellow can develop into one of the most satisfactory accounts, just as long as you let him feel that he is doing the thinking and investigating. AND THE BUYING. Try and jam something down his throat and he may buy it—BUT NOT FROM YOU! He'll call up another broker and buy it (if he likes it) and you'll never hear about it.

This may all seem sort of strange—but there is more to it than appears on the surface. Modern psychology probably has a technical explanation—but it doesn't matter how many frustrations this fellow has had in his childhood—the main point of importance to the salesman, is to recognize him when you meet him, and then give him the kind of soothing syrup HE LIKES.

It's the same old dose—you can use it time and again. It always brings results. First, don't pressure your points. Become friendly—be sympathetic to his ideas. Take him to lunch. Show an interest in his interests. Find out what he owns and why he owns certain securities. Don't criticize his investments, his ties, or his ideas. Tell him about a certain situation and why you like it. Suggest that you believe it would make a suitable addition to his portfolio. Answer his questions and be as thorough as is necessary in explaining your reasons why he should make the investment. If possible END YOUR INTERVIEW BY LEAVING HIM SOME LITERATURE TO READ AND EXPLAIN THAT YOU ARE GOING TO CALL HIM ON THE TELEPHONE IN A COUPLE OF DAYS. If you have done this job thoroughly and well, nine times out of ten you can then pick up the telephone and say, "Hello Harry, how are you?" "Harry, you can buy ten of those Consolidated Psychology 5s, they are all right." He may only buy five of them, but if he is going to buy at all, this is the way he'll do it.

Of course, Harry knows all the time that he wanted to be sold; but he never wants **you to know it.** Incidentally, Harry never reads those long SEC prospectuses—he also wants you to do it and then tell him about it in language that he can understand.

Secretary Snyder Urges Tax Revision

In address at Houston, while emphasizing need for a financially sound government and opposing immediate tax reductions, he expresses approval for a revision of taxes.

In speaking at Houston, Texas, before the Houston Chamber of Commerce on Dec. 6, Secretary of the Treasury John W. Snyder stressed the importance of maintaining the government financially strong, and, although advocating a review of our outmoded tax system, strongly opposed immediate general tax reductions. Said Secretary Snyder:

John W. Snyder

"One of the most effective steps we can take in government towards fiscal soundness would be an equitable revision of our tax structure, which today does not fully meet the requirements of our modern expanding economy.

"Many elements in the present tax system were adopted under conditions vastly different from those which confront us currently. Some of these measures were adopted during depression conditions; others during the extraordinary circumstances of war.

"During the past years, when we were striving to increase Federal revenues, first to prepare for, and later to fight, the costliest war in history, we were compelled to give high priority to those measures of taxation that would bring in sufficient revenue. Of necessity, adequate attention could not be given to considerations of equity and to the incentives which would be needed after the war for the expansion of American industry and trade.

"But we must now devise a strong, balanced tax program. We need a tax system that will not deter the American public from providing markets for this expansion.

"In meeting this need, the Congress must resolve many difficult questions. For example, what specifically is there in the present tax system that lies in the path of continuing expansion of American business and industry? What is there in the present tax system which, if unchanged, would sooner or later interfere with expanding markets for the products of American industry? What are some of the inequities which have crept into the American tax system and, tolerable during conditions of war, should now be eradicated?

"In the Treasury we have devoted a great deal of time and study to provide the American public and the Congress with the best answers to these questions.

"To date we have released 12 major tax studies; 15 others are in process and are scheduled for release during the next several months.

"I believe that it would be well to repeat here those fundamental principles of a sound tax structure which I stated before the Ways and Means Committee on May 19, 1947, as follows:

"'The tax system should produce adequate revenue. It should be equitable in its treatment of different groups. It should interfere as little as possible with incentives to work and to invest. It should help maintain the broad consumer markets that are essential for high-level production and employment. Taxes should be as simple to administer and as easy to comply with as possible. While the tax system should be flexible and change with changing economic conditions, it should be possible to achieve this flexibility without frequent revisions of the basic tax structure. A stable tax structure, with necessary flexibility confined largely to changes in tax rates and exemptions, will make it easier for business and government to plan for the future.'

"The complex excise tax structure is among the matters which will require especial attention in the process of modernizing the tax system to make it compatible with the continued expansion of American business and industry.

"Some of the present excises enter into business costs and operate to disturb competitive relations. An outstanding example is the tax on transportation of freight. Other excises produce either unimportant amounts of revenue or are unduly burdensome on individuals with low incomes. Still others would, under less favorable business conditions make it difficult to carry on profitable enterprises.

"While it is true that the existing excise tax system has not been detrimental to business during the war and postwar inflationary period, I believe that under more normal conditions it could not be continued without harmful effects.

"I further believe that in revising the tax system it is important to bring about greater equalization in the taxation of business income regardless of the legal forms of organization. Present law produces important differences in tax burden on business income, depending upon whether it is conducted in the form of an unincorporated or an incorporated business. While complete uniformity may prove to be neither desirable nor practicable, some greater degree of equalization would appear to be attainable. In this connection attention should be given to the problem which has received so much discussion in recent months, namely, the double taxation of dividends.

"There is not sufficient time to discuss all of the important elements of a fiscal and tax policy which I believe would have the maximum salutary effect upon our domestic economy. There is one other phase, however, which I would emphasize.

"As Secretary of the Treasury, I must consistently and forcibly advocate the policy of providing sufficient revenues to meet current obligations and to permit steady liquidation of the public debt.

"The U. S. Treasury closed its last fiscal year with a surplus for the first time in 17 years. Certainly during this present period of prosperity we should maintain a balanced budget with adequate provision for debt reduction.

"It is a sobering thought that although our public debt has been materially reduced from its peak, it still remains at the staggering figure of $258,000,000,000.

"The public debt of the United States is a contract between the government and the people of this country. Government bonds are held by individuals, by insurance companies, by banks, by educational and charitable foundations. We must not weaken public confidence in government obligations by ignoring our debt at a time when we should reduce it.

"I want to make it perfectly clear that I am not opposed to tax reduction. I believe tax reduction feasible and proper after we have met certain necessary prerequisite obligations.

"In closing, I would like to restate my strong conviction that a financially sound government is the first requisite to permanent welfare and is the keystone to the security of a people.

"I am convinced that before reaching conclusions on tax reduction, the Congress should first consider foreign aid within a balanced budget; second, debt reduction; and third, equitable tax revision.

"When the necessary prerequisites have been met, tax reduction will become feasible and proper.

"We must remain a nation strong economically, strong financially, and strong in the determination to exercise our responsibilities of leadership.

"Devotion to the principles of a free democracy has been the compelling force behind the progress of our system of enterprise. And, under the continued guidance of these principles, we will persevere as a powerful influence for worldwide economic stability and genuine world peace."

Georgia Power Bonds Offered at 101.42

Georgia Power Co. on December 9 awarded a new issue of $10,000,000 first mortgage bonds series due 1977 to an underwriting group consisting of Blyth & Co., Inc., and Kidder, Peabody & Co. on their bid of 100.69, naming an interest rate of 3⅜%. The bonds are being re-offered today at a price of 101.42 and accrued interest, to yield approximately 3.30%. Proceeds are for expansion of the company's facilities. The company is a part of Commonwealth & Southern Corp.

Southern California Edison Preferred Offered By First Boston-Harris Hall Group

An underwriting group headed by The First Boston Corp. and Harris, Hall & Co. (Inc.) on Dec. 10 made a public offering of a new issue of 800,000 shares of 4.88%, $25 par value, cumulative preferred stock of Southern California Edison Co. The stock is being offered at $26.25 per share to yield approximately 4.65%.

The issue was awarded to the group in competitive bidding Dec. 9 on its bid of $25.05 per share for a $1.22 dividend stock.

Proceeds from the sale of the stock will be used to retire $16,000,000 of bank loans incurred in connection with the company's program of construction and the balance partially to reimburse the company for expenditures for other capital improvements. Gross property additions and betterments for the nine months ended Sept. 30, 1947 amounted to $35,140,122 and for the balance of 1947 and the calendar years 1948 and 1949 are expected to approximate 125,000,000.

The new stock will be redeemable as a whole or in part at prices ranging from $27.00 if redeemed before Jan. 1, 1953 to $26.25 if redeemed after Jan. 1, 1963.

Upon completion of the present financing capitalization of the company will consist of $138,000,000 first and refunding mortgage bonds, $16,000,000 bank loan notes, and capital stock, all of $25 par value, as follows 160,000 shares 5% original preferred, 1,653,429 shares of 4.32% preferred, 1,653,071 shares 4.48% preference, 3,183,091 shares of common, and the preferred stock now being offered.

Economic Outlook and What to Do About It

By H. B. ARTHUR*
Economist, Swift & Company

Asserting seeds of inflation have grown up like ragweed, largely because of Federal Government's fluctuating policies, Mr. Arthur characterizes present boom as highly vulnerable. Sees hope in Federal Government showing signs of adopting counter-inflationary policy, but points to weather, bonuses and wages as likely to "run up the price bulge this fall."

I hope that our chairman's decision to invite me to be a member of this round table was not inspired by a selfish effort to curry favor with a potential supplier of meat. If this is the case, my presence here should be classed as a "hedge against inflation." That's a new role for me. I wish I could fill it, for I thought there was no real hedge against inflation.

H. B. Arthur

But, to turn more directly to the subject of our discussion, "The Economic Outlook and What to Do About It." It seems to me that we can best interpret today's situation in terms of the progress that has been made in restoring a war-disrupted economy to a condition which we hope will resemble peace within some reasonable future time.

When we entered the war we had gone through a decade which began with disastrous depression, followed by eight years of more or less frantic effort on the part of our government to create a recovery by using the traditional tools of inflation. The government was trying to get back to what it considered a healthy, prosperous balance by a process called "re-flation."

The war intervened in this process of impeded recovery by giving us inflationary pressure with a vengeance. We jumped right over the position of even balance and found ourselves faced with inflation, both potential and actual—inflation which was restrained in some respects by wartime controls, perverted and disguised by treating symptoms rather than the disease, but inflation none the less.

At the close of the war practically all of the pressures were still on the inflationary side; scarcity of goods, redundancy of money, tremendous capital requirements, unbalanced budget and so forth.

Still the policy of our government through the first two years after V-J Day was seeking to counteract an imagined deflationary threat one minute, an impeding inflation the next. Only in the past few months have we had a recognition on the part of government that our predominant concern is to counter inflationary tendencies.

This last is one of the important facts in our present situation—a belated recognition in the Federal Government that the seeds of inflation have grown like ragweed and are beginning to show their blooms. Those who are sensitive to the winds of human opinion, like those who are allergic to the ragweed, have gone into paroxysms and wheezing and blowing. Congress has been assembled with one of its purposes to do something about it.

Now, to turn to the more direct question and to more strictly economic terminology, we can cite some very favorable pages in the record. The remarkable rate of postwar reconversion in the United States shows itself in startling contrast to the present state of practically all the other countries in the world, particularly those in the Eastern Hemisphere. We have attained full employment; we have in very considerable measure restored the normal flow of consumer goods with the exception of a few in the durable goods classification like houses and automobiles. The restoration and expansion of industrial plant and capital equipment is necessarily incomplete and this situation probably holds forth the most hopeful potentiality of sustained high level production for some time to come. The standard of living of the American people; that is, the real income in terms of goods consumed, is the highest that has ever been attained in history.

All this is definitely to the good. We have prosperity. It is a cause for national pride and elation.

At the same time we have developed, or carried over from the war period, our increasingly serious inflationary unbalance without doing anything very effective about it. The increase in the flow of goods surely is one exception, but the wage demands fostered by the government, the feeble rate at which government spending has been cut, the failure to get anywhere toward a restoration of the economies under our own military control, or to assist effectively the efforts of other countries trying to get on their feet, are all matters which leave us with the prospect of continued scarcity of goods relative to the available supply of purchasing power in this country. We have prosperity, but we decidedly do not have stability.

Perhaps nowhere in the economy is there so clear evidence of the way inflationary pressures work as in the livestock and meat industry. The value of products sold by this industry tend to move very closely with changes in the national total of individual incomes. The supply of meat has gone up one-fifth from prewar average. Farmers are doing a good job; the nation doesn't have a shortage of meat per capita compared with the supply before the war.

But the number of dollars on one side of the meat dealer's counter have increased much faster than the number of pounds of meat on the other side of the counter. Disposable incomes are much more than double prewar levels and with meat supplies increased by only one-fifth, it is natural to find prices going up. We made a recent calculation which showed that the current index of meat prices falls at almost the exact point that would be calculated by dividing an index of national income by an index of the supply of meat.

This illustrates the extent to which prices respond to changes in money incomes. And if the expectations of the U. S. Department of Agriculture are correct, we should expect, beginning sometime next spring, to have a slightly smaller total volume of meat to divide into the national

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*A statement by Mr. Arthur at a panel discussion of the NAM 52nd Annual Congress of American Industry, New York City, Dec. 3, 1947.

Tailoring the Federal Budget

By THOMAS S. HOLDEN*
President, F. W. Dodge Corporation
Vice Chairman, NAM Government Spending Committee

Mr. Holden describes tax studies of National Association of Manufacturers which resulted in placing a maximum of $31 billions on 1949 Federal Budget. Says National Defense and Veterans' benefit spending can be greatly reduced without impairing services, and contends present general expenditures are far too high. Allows $4 billion for contingencies and foreign aid.

It is entirely practical and realistic for taxpayers to demand that Federal Government expenditures for the fiscal year 1949 be limited to a maximum of $31 billions. Such a limitation would permit tax reduction from present levels in the amount of $7 billions and debt reduction by an estimated $3 billion.

This statement is not based on wishful thinking. It summarizes the studied conviction of the Government Spending Committee of NAM. That conviction was arrived at by exhaustive study of the current Federal Budget and of analyses and recommendations regarding possible economies made by numerous committees and subcommittees of the two Houses of the 80th Congress. Your committee's report and recommendation with regard to the Federal Budget are based on a study prepared by Dr. Harley L. Lutz, working with the staff of the Association's Government Finance Department. The report was approved by the NAM Board of Directors on Oct. 29.

Thomas S. Holden

The $31 billion maximum recommended in your committee's report does not represent this Association's view of the ultimate goal of peacetime budget reduction. It represents the committee's view of what is practical and feasible for fiscal 1949 as a progressive step toward further reductions in Government expenditures in ensuing years.

When an organization such as the National Association of Manufacturers proposes a tax program, and particularly one which involves a substantial reduction of tax burdens, it is likely to be challenged to show that this program will not undermine the budget.

NAM Tax Studies

The NAM staff has been engaged, during the past year, in a series of independent but interlocking studies. The subjects of those studies are capital formation, tax revision, and a maximum budget ceiling for the fiscal year 1949. The program that has been developed as a result of these studies, if adopted, would go far toward restoring the economic incentives of work, thrift, and risk-taking. It is a constructive step toward the solution of our present difficult price problem, a solution which must include strong emphasis upon increased production.

There has been ample discussion of the capital formation study and the tax revision program by other speakers. It will be my purpose here to discuss with you briefly some aspects of these budget recommendations. A table setting forth the statistical conclusions of the budget study has been placed in your hands.

First, let me direct your attention to the fact that this is a recommended maximum budget. The various items contained in it have been arrived at by procedures which we believe to be realistic, and which I shall outline to you presently. The amounts proposed for the various services and functions represent our best judgement, based upon the recommendations of Congressional Committees for the fiscal year 1948, as to what the Federal operations should reasonably cost in 1949. No doubt there are points at which the cost can be held below the amount set out in our budget as a ceiling. In that event, the lower figure should apply. In undertaking a realistic and defensible series of estimates, we have refrained from the "horse trade" philosophy, which is that one should always ask for much more than is really expected in order to leave room for compromise. We offer this budget as a maximum, and we really mean a maximum, with no intention of

(Continued on page 32)

*Address by Mr. Holden at the Government Finance Special Session of the 52nd NAM Annual Congress of American Industry, New York City, Dec. 5, 1947.

NSTA Notes

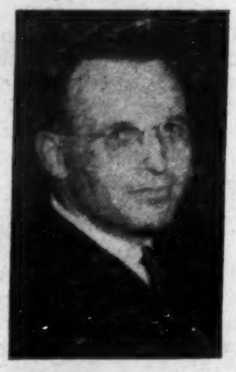
SECURITY TRADERS ASSOCIATION OF NEW YORK

At the Annual Meeting of the Security Traders Association of New York the following were elected officers for 1948:


John J. O'Kane, Jr.


James F. FitzGerald


Andrew R. Steven, Jr.


John J. Meyers, Jr.


Wellington Hunter

President—John J. O'Kane, Jr., John J. O'Kane, Jr. & Co.
First Vice-President—James F. FitzGerald, Paul & Co.
Second Vice-President—Andrew R. Steven, Jr., Bond & Goodwin, Inc.
Secretary—John J. Meyers, Jr., Gordon Graves & Co.
Treasurer—Wellington "Duke" Hunter, Aetna Securities Corporation.

Pictures taken at the annual meeting appear elsewhere in the "Chronicle."

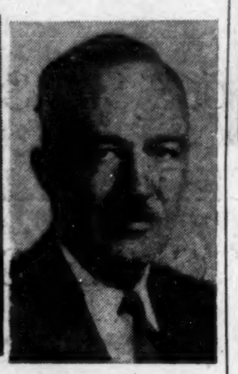
BOND CLUB OF DENVER

Donald F. Brown, Boettcher & Co., has been nominated for President of the Bond Club of Denver to succeed Bernard Kennedy of Bosworth, Sullivan & Co. Other nominees are Robert L. Mitton,


Donald F. Brown


Robert L. Mitton


Glen B. Clark


Phillip J. Clark

Vice-President; Glen B. Clark, Sidlo, Simons, Roberts & Co., Secretary, and Phillip J. Clark, Amos C. Sudler & Co., Treasurer. Nominated for directors were Mr. Kennedy, Orville Neely, Merrill Lynch, Pierce, Fenner & Beane; David Dodge, J. A. Hogle & Co.; and Russell G. Van Dervort, Denver National Bank.

Elmer Longwell, Boettcher & Co., Chairman, George Shaw, Merrill Lynch, Pierce, Fenner & Beane, and B. E. Simpson, B. E. Simpson & Co. were members of the nominating committee.

BOND TRADERS CLUB OF PORTLAND

New officers of the Bond Traders Club of Portland for 1948 are Pierre A. Kosterman of Conrad, Bruce & Co., President; Dan Bailey


Pierre A. Kosterman


Dan V. Bailey


Russell McJury

of Foster & Marshall, Vice-President; Russell McJury of the First National Bank of Portland, Secretary-Treasurer. John G. Galbraith, John Galbraith & Co., is the retiring President.

BOSTON SECURITIES TRADERS ASSOCIATION

The Boston Securities Traders Association at its Annual Meeting on Dec. 4, 1947, elected the following officers and governors for the ensuing year:


Arthur E. Engdahl


Anton E. Homsey


Burton F. Whitcomb


Harold A. Madary


Albert G. Woglom

President—Arthur E. Engdahl, Goldman, Sachs & Co.
Vice-President—Anton E. Homsey, du Pont, Homsey Co.
Treasurer—Burton F. Whitcomb, Blyth & Co., Inc.
Recording-Secretary—Harold A. Madary, Geyer & Co., Inc.
Corresponding-Secretary—Albert G. Woglom, A. G. Woglom & Co., Inc.
Governors (two years)—Harry O. Baker, Boston S. D. & Tr. Co.; Frank S. Breen, Schirmer, Atherton & Co.; Birney S. Halliwell, F. S. Moseley & Co.
Governors (one year)—John J. D'Arcy, F. L. Putnam & Co.

BOND TRADERS CLUB OF CHICAGO

The Nominating Committee of the Bond Traders Club of Chicago has selected the following slate for 1948:


Starr Koerner


James E. Hitchcock


Ernest A. Mayer


Arthur C. Sacco

President—Starr Koerner, Mitchell Hutchins & Co.
Vice-President—James E. Hitchcock, Cruttenden & Co.
Secretary—Ernest A. Mayer, Holley, Dayton & Gernon.
Treasurer—Arthur C. Sacco, First Securities Co.

The new officers will be introduced at the Annual Mid-Winter Dinner on Feb. 3, 1948, and will take office March 1, 1948. The selections of the Nominating Committee were unanimous.

The dinner will be held at the La Salle Hotel, and our club feels fortunate in having reserved rooms for out-of-town guests.

Room reservations will be handled by Chris Newpart of Merrill Lynch, Pierce, Fenner & Beane.

SECURITY TRADERS ASSOCIATION OF LOS ANGELES

The election of officers of the Security Traders Association of Los Angeles was held Tuesday, Dec. 2, 1947, and the newly elected officers are:


Oliver B. Scott


William A. Miller


G. B. Tuttle


William C. Pike

President—Oliver B. Scott, Maxwell, Marshall & Co.
Vice-President—William A. Miller, Fairman & Co.
Treasurer—Gordon B. Tuttle, Edgerton, Wykoff & Co.
Secretary—William C. Pike, Buckley Bros.
Board of Governors—John C. Hecht, Dempsey, Tegeler & Co.; Jack Alexander, Bourbeau & Douglass, and Donald E. Summerell, Wagenseller & Durst, Inc.

Halsey, Stuart Offers Cleveland El. Bonds

A group headed by Halsey, Stuart & Co. Inc. on December 10 awarded $20,000,000 Cleveland Electric Illuminating Co. first mortgage bonds, 3% series due 1982, on their bid of 100.58%. Reoffering is being made at 101.08% and accrued interest, yielding approximately 2.95%. Proceeds from the sale of the bonds are to be applied to the company's current and proposed construction program, which presently aggregates approximately $93,000,000.

In the opinion of counsel the bonds are legal investment for savings banks in the States of Connecticut, Massachusetts and New York. It is expected that the company will apply for listing of the bonds on the New York Stock Exchange.

For the year 1946, the Cleveland Electric Illuminating Co. reported total operating revenues of $47,713,175 and gross income after maintenance, depreciation and all taxes of $10,063,349; maximum annual interest charges on all bonds to be outstanding after this financing will require $2,100,000. The bonds are subject to redemption at the option of the company prior to Dec. 1, 1948 at 104.08%, the premium reducing annually thereafter to 1977.

The Cleveland Electric Illuminating Co. provides electric service in Cleveland and in adjacent territory in northeastern Ohio extending nearly 100 miles along the south shore of Lake Erie and having a population estimated at 1,640,000. The company also sells steam in the downtown business section of Cleveland. Approximately 96% of its 1946 operating revenues were derived from the sale of electric energy and approximately 4% from the sale of steam.

Hervey Russell Will Form Consultant Firm

Hervey L. Russell, who has been counseling manufacturers with their renegotiations problems since resigning from the War Department in 1943, will establish an investment counsel business in New York City. He is taking this step as he feels that the knowledge he has gained in renegotiations, supplementing his experience of the past 25 years in the industrial and investment fields, will be of greatest value as consultant. He will offer his services to bankers, brokers, institutions, estates and individual investors as investigator, evaluator and general consultant, as well as stockholder representative.

Mr. Russell states he has no desire to join the overcrowded field of "market prophets," but will devote most of his time and energy to a limited number of situations.

J. D. Topping to Open Municipal Bond Firm

James D. Topping as of January 1st will form his own municipal bond brokerage firm in New York City. Mr. Topping has been a Vice-President of Braun, Bosworth & Co., Inc., with headquarters in New York City. Prior thereto he was a partner in Hipkins & Topping for many years.

Associated with Mr. Topping as partners in his new firm will be Roswell H. Harriman and Stewart R. Terrill, both of whom have been with the New York office of Braun, Bosworth & Co. since its establishment and prior hereto with Hipkins & Topping.

Now Sole Proprietorship

William E. Keegan is now sole proprietor of W. R. Britton & Co., 120 Broadway, New York City.

Edward A. Roberts Forms Own Firm

New organization will serve transit systems, public bodies and financial institutions

Announcement was made of the formation of The Roberts Organization, Transit Engineers and Consultants, with offices at 369 Lexington Avenue, New York City.

Edward A. Roberts

Heading this new engineering firm is Edward A. Roberts who since 1925 has been engaged in the field of transit operation and engineering as a partner in Fisk & Roberts. From 1923 to 1942 Mr. Roberts was also chief executive of various transit companies in the Borough of Queens, New York City. From 1942 to 1945 he was Director of the Division of Highway Passenger Operations of the Office of Defense Transportation, in charge of the wartime regulation of the transit, intercity bus and taxicab industries. Previous connections have been with the New Jersey Public Utilities Commission as consulting engineer, with the New York Transit Commission as Chief of the Transit Bureau and with the Beeler Organization, tran.it consultants.

As engineer on transportation problems for the Roberts Organization will be William H. Ahearn, who was with the Beeler Organization in a similar capacity from 1918 to 1942, making transit surveys in most of the large cities in the United States and Canada. During the war Mr. Ahearn headed the Transit Section of the Office of Defense Transportation.

Eric Holmgren, Jr., who will be in charge of maintenance and automotive engineering for the Roberts Organization, has been in this field since graduation from Brooklyn Polytechnic Institute in 1930. After a number of years as maintenance chief of Queens-Nassau Transit Lines and Steinway Omnibus Corporation, he formed and still continues to operate Transit Maintenance & Service Co., a concern specializing in maintaining bus fleets of numerous independent bus lines in Northern New Jersey.

The new organization will serve transit systems, public bodies and financial institutions interested in transit modernization plans or having problems involving the movement of people in cities and on public highways. A typical case is Mr. Roberts' retainer by the City of Seattle to make an annual survey and a series of recommendations on the operation and finances of its municipally-owned transit system.

NEWS ABOUT BANKS AND BANKERS

ONSOLIDATIONS
EW BRANCHES
EW OFFICERS, ETC.
EVISED CAPITALIZATIONS

The Executive Committee of the Board of Trustees of **Central Hanover Bank and Trust Company of New York** on Dec. 9 appointed as Assistant Secretaries: Karl E. Case, Paul J. Hanna, George H. Haslam, LeMoine R. Buckalew, Alfred L. Manierre, Donald R. Spaidal, G. David Setterstrom, Emil Schmidt and Edward F. Ryan. Martin J. Suydam was appointed Assistant Treasurer and Jack R. Stunzi, Assistant Manager, Foreign Department. Harry G. Carey was appointed Assistant Treasurer and Randall Rubenstein, Assistant Secretary of the bank's 54th Street Office.

* * *

Miss Anna M. Flaherty has been appointed Advertising Manager of **The Bank for Savings in the City of New York,** at 280 Fourth Avenue. Miss Flaherty joined the Bank in 1929 having formerly been with the National Bank of Commerce in New York. For the past year she has been actively engaged in handling the Bank's advertising, and her appointment as Advertising Manager is in recognition of her work.

* * *

The **Great Neck Trust Company of Great Neck, Long Island** has increased its capital from $225,000, consisting of 20,000 shares of preferred stock of the par value of $2.50 each and 14,000 shares of common stock of the par value of $12.50 each, to $387,500, consisting of 20,000 shares of preferred stock of the par value of $7.50 each and 19,000 shares of common stock of the par value of $12.50. Information to this effect, credited to the State Banking Department, was contained in Albany, N. Y. advices to the New York "Herald Tribune."

* * *

The **West Hempstead National Bank of Hempstead, N. Y.** has increased its capital from $25,000 to $100,000; the increase was effected through a stock dividend of $50,000 and the sale of $25,000 of new stock.

* * *

John J. Sweeney has been appointed a Vice-President of the **Manufacturers & Traders Trust Company of Buffalo, N. Y.** President Lewis G. Harriman announced on Dec. 5, reports the Buffalo "Evening News" which states that Mr. Sweeney, who now is in charge of the installment-loan department, began his banking career as a messenger more than 30 years ago. He is Assistant Treasurer of the Chamber of Commerce.

* * *

Charles L. Gurney, Chairman of the Board of **The Buffalo Savings Bank of Buffalo, N. Y.,** died on Nov. 30. Mr. Gurney, who was 82 years of age, had been associated with the bank for 40 years, said the Buffalo "Evening News," from which we also quote:

"He was elected a trustee of the Buffalo Savings Bank in 1907; named second Vice-President in 1912 First Vice-President in 1915 and President in 1932. He served as President for 12 years, becoming Chairman of the board in December, 1944. He was a former President of the realty firm of Gurney, Overturf & Becker Inc., with which he had been connected for 61 years.

He was also organizer and First-President of the Buffalo Municipal Research Bureau.

* * *

Announcement was made on Dec. 1 of the appointment of E. Michael Donelly, as Cashier of **The Union National Bank of Newark, N. J.,** it is learned from the Newark "Evening News" which states that he succeeds Arthur B. Irwin, who resigned several weeks ago. The "News" further says:

"Mr. Donelly has been with the Federal Deposit Insurance Corp. for the last 13 years in the division of examination in the Second District. He also acted as assistant to the supervisor in the division of liquidation in the merger and rehabilitation of banks in New Jersey, New York and Pennsylvania. The appointment announced by C. Warren Crandall, Executive Vice-President, [of the Union National] completed the roster of officers re-organized in the last six months since a major change on the board of directors in May. At that time Mayor Murphy was elected President.

* * *

Control of the **People's Bank & Trust Company of Passaic, N. J.** has been acquired by the **Paterson Savings Institution of Paterson, N. J.,** through stock purchases and control of the two institutions has been consolidated, Henry C. Whitehead, President of the Passaic bank, announced on Dec. 3, it is learned from the Newark "Evening News," which further said in part:

"There will be no change in the officers or personnel of the People's Bank, Mr. Whitehead said, beyond the exchange of two members of the Board of Directors of the institutions. The consolidation was made known after a special directors' meeting of the local bank last night. The 78-year-old Paterson bank obtained control of the 57-year-old Passaic bank, it was said, by purchase of the People's stock holdings of William F. Laporte, Executive Vice-President; Aubrey C. Elias and Dr. Anton Randazzo. They had held approximately 47% of the stock, according to the announcement, and with the Paterson bank's other holdings this represented a controlling interest."

It is stated that the stock was acquired at $47.50 a share, comparing with a book value of about $35 a share.

* * *

It is announced that Joseph J. Evans has been named a Vice-President of the **First National Bank of Philadelphia.** The Philadelphia "Evening Bulletin" in reporting this in its Dec. 5 issue, said: "Mr. Evans who is in charge of the bank's correspondent bank relations, joined the First National Jan. 1, 1945, as an Assistant Cashier, becoming an Assistant Vice-President a year later. Other appointments announced by the directors all effective Jan. 1, were: Samuel J. Livingston, Assistant Vice-President; William S. Germer, Linwood A. Williams, Gilbert C. Savidge, Earl H. Cunerd, Earl S. Eichin, William H. Barndt, Francis C. Moore, and William N. Klenske, all Assistant Cashiers.

* * *

The **Braddock National Bank, of Braddock, Pa.,** (capital $500,000) was placed in voluntary liquidation on Nov. 17, having been absorbed by the **Mellon National Bank & Trust Company of Pittsburgh.** The plans of the latter to take over the Braddock bank as a branch were noted in these columns Oct. 30, page 1757.

* * *

Lovett C. Ray, was elected Vice-President and Howard A. Jepson was chosen Treasurer of the **High Street Bank and Trust Co. of Providence, R. I.** at a recent meeting of the bank's directors, it was stated in the Providence "Journal" of Nov. 23. Mr. Ray entered the service of the High Street Bank in 1923 and was elected Treasurer and Secretary in 1946. Mr. Jepson has been with the bank since 1928 and was elected Assistant Treasurer and Assistant Secretary a year ago. He was previously employed by the **Citizens Savings Bank** and the **Rhode Island Hospital Trust Co.**

* * *

The election of Manasses J. Grove as a Vice-President of the **Mercantile Trust Company of Baltimore, Md.** was announced on Nov. 27, according to the Baltimore "Sun" of Nov. 28, which notes that Mr. Grove has been connected with the Mercantile since 1940. Previously he was associated with New York and Baltimore investment houses.

* * *

The merger of the **Bank of Baltimore County at Towson, Md.** with the **Fidelity Trust Company, Baltimore,** was approved by stockholders of both institutions on Dec. 2. The merger, according to the Baltimore "Sun" of Dec. 3, will become effective as of the close of business, Dec. 20, and on Dec. 22, the County Bank will begin operating as the Towson office of the Fidelity Trust Company. The "Sun" also said in part.

"Howard F. Herbst, Cashier of the Bank of Baltimore County, will serve as Manager of Fidelity's Towson office. Present directors of the County Bank will become an advisory committee for the Towson territory. The combined banks will have total resources of approximately $58,000,000. A preproximately $58,000,000. A previous item bearing on the merger was given in our issue of Nov, 20, page 2065.

* * *

Cary L. Page, President of the Jackson Mills, of Wellford and Iva, S. C. has been elected to serve as a Class B director of the **Federal Reserve Bank of Richmond.** According to the Baltimore "Sun" of Nov. 20, which stated that he will serve for a three-year term beginning Jan. 1, 1948, and will succeed Edwin Malloy, of Cheraw, S. C., who has declined re-election. The "Sun" added:

"J. A. Sydenstricker, Cashier of the First National Bank, Marlinton, W. Va., was elected as a Class A director, to succeed himself for a three-year term starting next Jan. 1.

"The changes were announced here by W. R. Milford, Vice-President of the Reserve Bank, in charge of the Baltimore branch."

* * *

Forest W. Alexander, Assistant Cashier of the **Federal Reserve Bank in Kansas City,** has been appointed Cashier of the bank's Oklahoma City branch, effective Dec. 1. The Kansas City "Times" of Nov. 19 from which we quote, also said: "He has been with the bank here since 1923 and until 1945 was in charge of the credit department. R. L. Mathes, Cashier of the Oklahoma City branch, was appointed a Vice-President of the Kansas City Bank and placed in charge of the Oklahoma City branch. Mr. Mathes was a member of the Kansas City bank's staff prior to his transfer to Oklahoma City in 1920."

* * *

The First National Bank in St. Louis, Mo., has announced the following promotions, according to the St. Louis "Globe Democrat" of Dec. 3: Elmer S. Schicker and Fred C. Roeper from Assistant Cashiers to Assistant Vice-Presidents; Walter L. Dressler to Assistant Cashier, and Earle B. Barnard to Assistant Auditor.

* * *

The **Citizens National Bank of Denison, Tex.** has increased its capital, effective Nov. 18 from $150,000 to $200,000 through a stock dividend of $50,000, it is learned from the Nov. 24 bulletin of the office of the Comptroller of the Currency.

Railroad Securities

One disappointing aspect of the railroad picture has been the failure of dividend distributions to keep pace with the flood of year-end extras and increased regular rates that have been coming through in the industrial field. Improved debt structures, strong finances, and the continued high level of earnings are held in many quarters to justify more liberal dividend policies on the part of a large number of roads. Yet there has been little inclination on the part of management to allow the owners of the property to participate to any greater extent in the present boom. This attitude is particularly disappointing in view of the long dividend drought of the depression decade.

One of the major exceptions to this general policy was the Union Pacific in declaring a year-end extra of $4.00, bringing the year's distribution up to $10.00 a share. At the same time it was announced that the directors had voted, subject to approval by stockholders and the ICC, to split both the common and preferred stocks two-for-one next year. It was expected at the very least that directors of Atchison, Topeka & Santa Fe would follow suit. Santa Fe has reduced its non-equipment by about a third in the past few years, eliminating all but two issues of long term non-callable 4s. It has a net working capital of close to $133 millions and its earnings this year should at least reach $16.00 a share. Still the dividend was kept to $6.00 a share with no year-end extra.

Another road that had been considered a likely candidate for more liberal dividend treatment was Northern Pacific. Since resumption of dividends with a declaration of $1.00 a share late in 1942, payable in 1943, the company has followed a policy of paying only one dividend a year and the rate has been kept at $1.00 a share. A similar declaration was made a short time ago. With this payment total post-depression distributions will come to $6.00 a share out of six years' earnings (1947 earnings estimated) of around $36.00 a share. Cash earnings have actually been considerably higher than that as the reported results were after deductions for accelerated amortization of defense projects in 1945, which was in addition to normal depreciation.

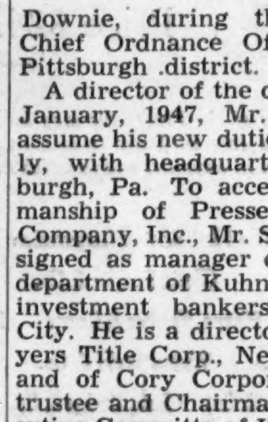
Although many holders of the stock were disappointed over the failure of the directors to increase the dividend rate at their last meeting, rail analysts generally still consider the shares as basically among the most attractive in the lower priced rail group. Moreover, it is felt in some quarters that if prospects appear to be shaping up well in the early months of 1948, it is entirely possible that the management may institute a policy of interim dividends next year. Finances are certainly adequate to justify such a step (net working capital is equal to more than four years' fixed charges) and the company has no maturity problems to prepare for.

Northern Pacific was rather slow to get an aggressive debt retirement program under way. In the initial stages of the post-depression earnings recovery the management preferred to exert its main energies towards financial rehabilitation and improvements to property and equipment. Nevertheless, considerable debt progress has been made in recent years. Fixed charges are now down to an indicated level of around $10,500,000, compared with a little over $15,000,000 in 1940. Moreover, the collateral trust issue (4½s, 1975) that was sold to help eliminate the old 6s was provided with a particularly liberal sinking fund, assuring consistent future paring of the debt structure.

Last year, without any net tax credit such as bolstered the earnings of so many carriers, Northern Pacific reported earnings of $3.28 a share on its stock. In the current year it is indicated that this will be increased at least to $5.00 a share. Moreover, industrial expansion in the western end of the service area, and the opening up of vast new farming areas through irrigation projects, have developed, and should continue to develop, important new traffic sources. This augurs well for future satisfactory earnings levels.

J. I. Snyder Heads Pressed Steel Board

John I. Snyder, Jr. on Dec. 4 was elected Chairman of the Board of Directors of Pressed Steel Car Company, Inc., a leading manufacturer of railway equipment and home appliances. It also was announced that that Col. Robert C. Downie, President of Peoples First National Bank & Trust Company, was elected a director of the company. Col. Downie, during the war, was Chief Ordnance Officer for the Pittsburgh district.



John I. Snyder, Jr.

A director of the company since January, 1947, Mr. Snyder will assume his new duties immediately, with headquarters in Pittsburgh, Pa. To accept the chairmanship of Pressed Steel Car Company, Inc., Mr. Snyder has resigned as manager of the buying department of Kuhn, Loeb & Co., investment bankers, New York City. He is a director of the Lawyers Title Corp., New York City, and of Cory Corporation, and a trustee and Chairman of the Executive Committe of Knickerbocker Hospital, New York City.

Mr. Snyder was educated in this country and in England and began his business career with Kuhn, Loeb & Co. in 1936. He is a member of The Wall Street Club, Wykagyl Country Club and Phi Gamma Delta.

It also was announced that the office of President of the company has been moved to Chicago where its domestic appliance division is located and which is readily accessible to the company's Mt. Vernon, Ill. plant.

Elmendorf in Milford

MILFORD, CONN.—Joseph De-Witt Elmendorf is engaging in a securities business from offices at 10 Pond Street.

A Prosperous Germany is Essential!

(Continued from page 6)

we did not make a false suggestion by comparing the transferable wealth in the Western zone with the amount asked for in the report on the Marshall Plan. In the Potsdam Agreement the delivery of a certain specified amount of surplus capital equipment from the Western zone is conceded to Russia; this of course has to be deducted from the transferable amount. On the other hand, it is known that in the amount of $22.3 billion asked for by the Paris Conference an amount of about $4 billion is included for aid to Western Germany.

A still more important objection may be raised when we look at the U. S. A. itself and consider its claim on reparations for its enormous war effort.

All depends on the principles one accepts for the calculation of the amount of reparations claimed by each of the allied nations.

Must Avoid Astronomical Claims

If one includes every dollar lost by enemy action and every dollar spent by the nation's own actions it is not difficult to arrive at astronomical figures beyond every possibility of fulfillment for the first one or two centuries to come. It seems therefore a wise policy to restrict the claims as much as possible and to accept as a first step — and probably as the only step possible — the amount of reparation necessary for restoring the productive power of each nation to the prewar level, taking into account the growth of the population. Even then a lot of problems arise and it seems advisable to agree as soon as possible on one standardized and detailed scheme of calculation of this basic minimum; every nation would have to base its claim for reparations on this standard scheme, submitted of course to checking by one central authority.

By doing so, the points of view more or less already accepted by the International Bank and by the Conference on the Marshall Plan would be closely approached to that of getting reparations from Germany and probably they can be brought to complete identity.

It is clear that the U. S. A.'s claim calculated on this base is practically negligible because the U. S. A. production per capita has already surpassed its prewar level. But it would be most deplorable if for this reasons the American public mind would show no interest in the problem of getting reparations from Germany altogether and perhaps in an impulse of generosity towards the beaten enemy tend to abstain from every action in this field. **By doing so America would actually give away the rights of others, that is so say of its own debtors,** and these debtor countries of Western Europe would be brought in a position of permanent dependency of the U. S. A. which would not make for the wholehearted cooperation so urgently needed.

Ownership Transfer Confusing

On the other hand, it is quite clear that the pure formal transfer of ownership of German factories and mines a.s.o. to 10 or 12 different nations would not mean very much; it would only increase the already existing confusion and add one more factor to the numerous causes that prevent the rehabilitation of Germany.

Therefore, it should be understood **that the potential claim on German property given to the Western countries should not be exercised by themselves but transferred to the U. S. A. in exchange for the goods to be imported according to the Marshall Plan.**

This would simplify and clarify the whole situation. It seems a solution that is certainly acceptable for the Western countries, because it would free them from present uncertainties and humiliations and from a growing burden of debts and obligations which most of them can not carry.

Is this scheme also acceptable for the United States and for Germany?

To the United States it means that instead of getting a money claim on several European countries, they get a long term investment in Germany which practically cannot be liquidated. And this is not a bad bargain. The money claims, even when they are sound, will mean rather big imports of European goods on the American markets and it is very likely that during certain periods these imports are not in the interest of American business and of the American economy as a whole.

On the other hand, the danger is not fictitious that in the long run these money claims will become a nuisance to the popularity of the U. S. A. in Western Europe. Gratitude, especially gratitude of collectivities, does not last very long. When once the benefits of the American imports are forgotten, the exigencies of the American loans will remain and it will be far too easy for all sorts of anti-American elements to mobilize certain national instincts against the foreign creditor who is asking his "pound of flesh."

A direct settlement with the Western countries puts all these difficulties aside and a long term engagement of the U. S. A. in Germany does not mean a fundamental change in the actual situation. This U. S. A. is already bearing the main part of the occupation costs and is financing by its own the inevitable German imports. Germany for the moment is a losing business in constant need of new capital from America. But whilst the U. S. A. is practically the only money-giver, the actual management of the German problems in the Western zone is constantly hampered and obstructed by divergencies between the three main powers.

The concentration of all reparation claims in one single hand, however, should mean that the other nations, who have sold their claims to the U. S. A. abstain fairly completely from all mixture in German affairs so that the prime condition for a real efficient management of the German bankrupt, i.e., an absolute one-head direction, is fulfilled. And it seems pretty sure that the objections of France and the other West European countries against a complete and quick rehabilitation of German industry will melt away, once they are assured that this rebuilt industry is and will remain in strong American hands. The Krupp Works in the hands of the United States Steel, the Bethelehem Steel or any other American combination is quite another proposition than restarting them under whatever German direction one can imagine. And the reselling of former German property by the American Government to private owners will strongly counteract the inflationary tendencies which might result from the Marshall Plan on the American economy.

Germans' Point of View

This brings us to the last point of view, that of the Germans. It is obvious that labor unrest and all kinds of sabotage in Germany will continue and increase as long as the policy of dismantling of factories, i.e., the annihilation of means of subsistence for the German people is continued. The transfer of the ownership of factories and mines and the entrance of Americans in the top management does not matter so much to the average German provided he has an opportunity to work, to earn a living and to look to a future of gradually increasing prosperity. If there is a chance of re-educating the German people to real democratic sentiments this task can only be accomplished by America—and by America alone.

The Germans have a certain feeling and respect for "prestige." The prestige of the other European countries, except perhaps Russia, is in German eyes not very large; they are too well aware that, after all, the position of all these victorious nations is far from being happy. But the Germans do respect the United States, not only because there are 140 million Americans against 60 million Germans, but also because they know the achievements of American science and organizing capacity. They know the high American level of prosperity; they envy it, they love it, to become American or at least similar to the Americans is at the pitch of their dreams. If America takes the lead, definitely and forever lasting—they will follow, accustomed as they are to good discipline.

And a prosperous and progressing Germany would be the best impetus for all the western countries; this Germany **permanently coached by American influence** would be one of the best guarantees for world prosperity and world peace.

Springfield Fire Stock Offered at $38 per Sh. By First Boston Group

The First Boston Corp. and Kidder, Peabody & Co. headed a group of investment banking firms which publicly offered Dec. 8, 80,987 shares of $10 par value capital stock of Springfield Fire and Marine Insurance Co. at $38 per share. 200,000 shares of the stock were originally offered to stockholders on Nov. 18, 1947, at the rate of one share of new stock for each 2½ shares of stock held of record on Oct. 6, 1947. At the close of the subscription period on Dec. 5, 1947, 109,400 shares had been taken by stockholders. The offering of 80,987 shares represents the balance of the 90,600 shares to be taken up by the underwriters plus 2,215 shares obtained by them through the exercise of rights, after deducting 11,828 shares previously sold by the underwriters.

Proceeds from the financing will be used by the company to strengthen the ratio of its capital funds to the volume of premiums written. The rapid growth in premium volume in recent years has made it advisable to obtain additional capital funds in order that the company may continue to write its share of desirable insurance business.

Total admitted assets of the company and its four subsidiaries, known as the Springfield Group, amounted to $61,398,599 at Aug. 31, 1947 and net premiums written were $38,572,133., for the 12 months ended Aug. 31, 1947.

FIC Banks Place Debs.

A successful offering of an issue of debentures for the Federal Intermediate Credit Banks was made Nov. 19 by Charles R. Dunn, New York, fiscal agent for the banks. The financing consisted of $37,750,000 1.25% consolidated debentures dated Dec. 1, 1947, and due Sept. 1, 1948. The issue was placed at par. In addition a special offering of $10,000,000 1.25% consolidated debentures was made at par. These debentures are dated Dec. 1, 1947 and mature March 1, 1948. The proceeds together with cash funds of $3,185,000 were used to retire $50,935,000 of debentures due Dec. 1, 1947. As of Dec. 1, 1947 the total amount of debentures outstanding was $354,035,000.

Capital Needs of an Expanding Economy

(Continued from page 2)

allowance is made difficult by the attitude of tax authorities toward undistributed profits, by corporate taxes which take a handsome proportion of earnings and by the drop in the purchasing power of depreciation allowances.

(2) Sale of new stock to present stockholders or in the market is not readily accomplished when corporation earnings are subject to double taxation, when steeply progressive income taxes take a heavy toll of savings by the individuals in middle and high income tax brackets, when market activity is constricted by high margin requirements, and when the stock market has to absorb a steady diet of offerings due to foreign liquidation and high domestic inheritance tax liabilities.

(3) Sale of bonds or preferred stocks in the new capital market is not always feasible when the trend of yields is up, when most recent issues are selling at discounts from offerings prices, when insurance companies and savings banks have full portfolios and when private savings are declining.

(4) Term loan funds are less readily available from insurance companies and commercial banks. The former have been able more completely to fill their investment needs from new mortgages and many banks are less interested in new term loans because their portfolios are full and bank supervisory officials are strongly urging that restraint be exercised in making loans.

(5) Current funds from banks are still readily available, but with the Federal Reserve Board tightening up their reserve position as an anti-inflation measure and with the rapid rise in prices increasing the risk element in all business, banks are prone to be more selective and cautious in granting credit.

In an over-all sense, the fact that funds for expansion in productive capacity are less readily available today than they were may be explained by two basic factors:

(1) The rate of saving has been reduced at a time when capital investment continues at a vigorous pace. Person liquid savings in the form of currency, bank deposits and securities are likely this year to be no more than \$6-\$8 billions as compared with \$15 billions last year and \$37 billions in 1945. They are no higher currently than they were when the national income was 40% of what it is today. Undistributed business profits have risen but they do not fill the void left when personal savings are so low. Depreciation reserves are high in dollars but probably do not cover replacement costs at present prices. On the other hand, outlays for housing, consumers' durable goods and new plant and equipment and new municipal projects are at the rate of about \$48 billions per annum currently, as compared with \$36 billions last year, and \$18 billions in 1945, and \$15 billions in 1939.

(2) The supply of investment funds is poorly distributed and far from mobile. Steeply progressive taxation has reduced the proportion of total savings derived from medium and high incomes which conventionally in the past furnished most of the venture capital and long-term credit needed by business. In addition, savings have become increasingly channeled into the hands of savings institutions whose investments are closely limited by law. It is small comfort to those who need funds to know that there are great aggregations of savings seeking employment but in a form or on terms which make them in effect inaccessible.

The fact that the past year and a half has witnessed a substantial and accelerating rise in yields and decline in prices of corporate bonds and preferred stocks give abundant testimony to the reality and width of the gap between savings and the need for funds. To be sure, yields are still low as compared with past periods of good business. But there is a risk that while money may remain cheap it will not be available in the vast amounts or in the form needed if a cutback in capital expansion is not to be forced.

This is the problem. We need a reduction in income taxes so that people can save more. We need higher interest rates so that there can be a greater incentive for those who have currency and deposits to use them in investment in new securities instead of in bidding up prices for consumer goods. We need large amounts of funds for aid to beleaguered nations abroad. We need a balanced budget. And looking to the long-range future, we need to reduce the public debt.

Free Interest Rates From Federal Reserve Controls

The way toward realization of these apparently contradictory objectives could be cleared by an announcement by the Federal Reserve authorities that they will within a few months consider that they are no longer obligated to hold interest rates or bond yields at any given level and that they will use their powers for the sole purpose of proper management of the supply of money instead of maintaining a low price for credit. Interest rates would then be permitted to rise to whatever level is necessary to attract increasing amounts of presently idle or of new savings into investment in the new mortgages and new corporate and municipal securities which must find placement if we are to continue to improve the standard of living of our people and to make our industrial structure strong.

Another vital step would involve changes in our fiscal program and in the tax structure to provide an inducement for individuals to increase their savings. This is far from easy, for our government seems to have virtually limitless demands for funds, and the concept of taxation according to ability to pay has been carried to such a ludicrously steep gradation in the surtax rates that we have severely constricted the ability to save. Recently a number of careful studies by competent experts have made it abundantly clear that we are not likely to be able to provide the funds needed for industry unless surtax rates are reduced to a maximum of 50%, unless the tax on capital gains is reduced and unless double taxation on corporate dividends is eliminated. These steps are urgently necessary, but how can we take them with the need for revenues as large as it is? Two basic changes in our fiscal program should make it possible for us to do these things now. These suggestions have been made by various individuals from time to time and have been viewed favorably by those with whom they have been discussed, but they need to be given wider attention than has been the case heretofore.

Finance Foreign Relief Through The Red Cross and Foreign Rehabilitation Through Privately Financed Credits

First, the burden of raising relief funds, obtaining the supplies and administering their use abroad might well be shifted from the government to the Red Cross. This would have the special merit of identifying sacrifices on the part of our people in the form of payment of contributions and a reduction in consumption with the financial and material aid they apparently are called upon to give. A succession of drives organized with the customary efficiency of the Red Cross should raise substantial amounts of funds, for our people are generous by nature, they recognize the urgency of the need, and would, if given an opportunity to do so, willingly make great personal sacrifices to give food and clothing and other goods to those left destitute by the ravages of war. Furthermore, contributors might be encouraged not only to give their funds but to sign pledges that they will reduce their consumption of the particular commodities which Europe needs and which are in short supply here. It is possible, of course, that European relief needs are beyond the ability of the Red Cross to raise funds, in which event supplemental assistance could be supplied through Congressional appropriations, but before we tax our people to provide funds for relief they should be given an opportunity voluntarily to make contributions which, of course, should be tax exempt.

It would also seem to be appropriate for our investment in European reconstruction to be handled not by inter-governmental loans but by a specially organized and privately financed Reconstruction Investment Corporation which would raise funds in the United States by selling its securities at rates of yield high enough to provide an incentive for our investors to take the risks which are inevitably associated with such loans. In case a government guarantee were to be necessary it should be limited to the political and exchange risks. The new organization should assume the full credit risk, for in no other way could we be sure that the conventional tests of credit worthiness would be adhered to. And, of course, if adequate amounts of funds could not be obtained from private investors, governmental loans might be necessary, but only the basic minimum of the burden of foreign investment should be assumed by the government. Such a corporation could make loans not only to private business but to governmental authorities for demonstrably essential projects. But the management should be private and the obligation the direct and obvious one of enterprises abroad to investors here instead of obligations of one government to another, for which lenders and borrowers alike have come to have less respect than is the case with private credits.

Private administration of relief and reconstruction operations would have several advantages. Foreign governments would not be able to sell to their citizens the goods which have been supplied by us as gifts. They would not be able to use our funds to meet their own government deficits. And they could not use our funds to finance socialization of their industries. But the vital consideration is that this method of financing foreign relief and reconstruction needs would permit us to cut our governmental expenditures enough to allow a reduction in the gradation of surtax schedules to a point where individuals in the middle and in the high income brackets would have substantially greater amounts of funds available for investment.

Tax Exemption for Savings

A second step which would appear to be called for is that savings be stimulated by exempting from taxation funds which individuals save from their current incomes in the form of increased deposits in commercial and savings banks, increased holdings of securities or increases in redemption value of life insurance. The amounts of exemption could be limited to a stated proportion—say 10-25%—of total income. It is absurd at a time when the country needs an increase in savings so desperately that in order to save \$100 an individual with net taxable income of \$10,000 must earn about \$150, an individual with \$20,000 of income must earn approximately \$200, an individual in the \$50,000 bracket must earn about \$315 and an individual in the \$100,000 bracket must earn \$575. When the supply of savings is as low relative to the demand for capital as it is today we need to substitute powerful incentives to save for the penalties on saving adopted when many government officials believed that the United Nations was a mature nation with a chronic tendency to save more than could be invested.

This program is unfortunately likely to be received with something less than enthusiasm in many quarters. Our Administration is committed to the policy of granting colossal credits to Europe. Many groups are bitterly opposed to any tax relief in the middle or high income brackets despite the need for more savings than it clearly is possible for us to obtain from present taxes. The Federal Reserve Board and the Treasury have a deep devotion to low interest rates, even though we need yields high enough to induce investment of funds which clearly cannot be attracted at present levels of interest rates. It will be charged that a system providing exemption for savings is difficult to design or administer, but such a system would be easy indeed as compared to rationing, price control and production control, which we know to be virtually impossible to make effective in peacetime. But the stakes are high. If we stop the expansion of Federal Reserve credit, take the European recovery program out of the Federal budget, reduce surtax rates drastically and provide through savings the investment funds we need, we will go a long way toward removal of the threat of inflation and insure prosperity for our people for a long while ahead. If we do not do these things, we face some troublous times indeed.

George H. Kountz With Field, Richards & Co.

CINCINNATI, OHIO — George H. Kountz has become associated with Field, Richards & Co., Union Central Building, where he will specialize in municipal bonds. Prior to joining Field, Richards & Co. he was associated with B. J. Van Ingen & Co., J. A. White & Co., C. J. Devine & Co. and was a partner in Seufferle & Kountz. He served in France and Belgium during the first World War II was a Lieutenant Colonel, General Staff Corps, assigned to the Military Intelligence Division.

Geo. H. Kountz

Orlo King Opens

NORMAL, ILL.—Orlo F. King is engaging in a securities business from offices at 509 West Manchester Road.

Mutual Funds

By HENRY HUNT

Let's Exclude the Rails, Mr. Dow

As every follower of the Dow Theory knows, the "Dow-Jones" averages were started in 1897 using only industrial and rail stocks, the latter looming almost as large as the industrials in our economy of 50 years ago. Early in 1929, the utility average was added in recognition of the importance of this fast growing specialized industry. Since 1929, no changes have been made with the exception of occasional eliminations and substitutions of individual companies comprising the three averages.

The utility industry is still considered a growth industry although the same can hardly be said for the rails today, in view of the increasing competition from trucks, buses, and airlines—not to mention the family car. In 1947, Class I railroads will probably show net earnings of about $400,000,000, equal to but 2½% of estimated total corporate earnings of $16 billion this year. On the other hand, the oil industry which is still growing will earn in the neighborhood of $1,400,000,000 or 3½ times as much as the railroads. Why not forget about the railroads as a confirmer of the Industrial Average—or substitute the oils if three averages are needed to play around with. We are inclined to believe that the Dow Theory, whatever its merits may have been in the past, is now a bit obsolete.

A Toast

Here's to a temperance dinner,
With water in glasses tall,
And coffee or tea to end with—
And me there? Not at all!

Largest Balanced Fund

Investors Mutual, sponsored by **Investors Syndicate of Minneapolis,** has made seven league strides in its seven year history. Its present assets of $108,000,000, make it the largest of the "balanced" funds, and the third largest of all the open-end or management investment companies in America. Shareholders as of Sept. 30, numbered 53,632, while assets were diversified as follows: 3.8% in cash; 12.6% in bonds; 33.3% in preferred stocks, and 50.3% in common stocks. This investment pattern conforms to the management's present policy of keeping investments divided as to type of security as well as to industries.

In a recent letter to shareholders, President E. E. Crabb said: "The economic outlook indicates an unabated volume of business for at least another year or so. Employment continues at approximately 60,000,000 and at the highest level in history. National income is reported at approximately $200 billion and that likewise is at the highest level. Money in circulation as currently reported is $28,635,000,000 which is between five and six times the prewar amount. Our gross national product is now at the rate of $226 billion per year and the backlog of national requirements for housing, for railroad equipment, for heavy construction of all types, for automobiles and various other merchandise plus international requirements for farm products and raw materials, all point to a continuance of high business activity.

"It must be recognized, however that the economic factors are not 100% favorable. Some evidence exists that requirements for certain lines of consumer merchandise are back to normal. Buyer resistance to increasing costs in the form of buyers' strikes, is more than a mere possibility. International relationships are having and will continue to have a direct and important bearing upon our lives and business.

"The favorable factors, we believe, outweigh the unfavorable but the latter are not to be ignored. For these reasons we continue to believe that a 'balanced' portfolio is best for the investor and this policy plus a policy of selectivity through analysis and research will provide, over the long pull, the most successful investment program that may be planned for at the present time."

Well, Blow Me Down

The scene was in the reading room of a large public library. The bibulous gentleman had been reading birth and death statistics.

"Do you know," he remarked, turning suddenly to the man seated on his right, "that every time I breathe a man dies?"

"Very interesting," replied the stranger. "Why don't you chew cloves?"

Cart Before the Horse

According to "These Things Seemed Important" published by **Selected Investments Company of Chicago,** "A French industrial trade paper says the U. S. workman produces 3½ to 5 times as much as a French workman 'America proves that high wages bring about tremendous output, says the publication. How about 'Tremendous output brings about high wages?'"

Notes:

National Securities & Research Corporation recently published a folder called "Behind the Scenes With National Investment Management."

Selected American Shares has declared a year-end dividend of 46c a share, half of which is derived from investment income and half from security profits. Total 1947 payments amount to 65c, of which 42c was derived from investment income alone.

Nation-Wide Securities has declared a year-end dividend of 20c a share, a part of which represents a distribution from security profits.

The Bond Investment Fund of America reported net assets of $7,486,000 as of Nov. 18, equal to $93.76 a share.

NASD District No. 8 Reports Elections

CHICAGO, ILL. — The annual election in District No. 8 of the National Association of Securities Dealers, Inc. has been held and the following have been elected to serve on the committee.

Terms for three years beginning Jan. 16, 1948:

William C. Gibson, W. C. Gibson & Co., Chicago; Lee H. Ostrander, William Blair & Company, Chicago; John M. Douglas, John M. Douglas & Company, Omaha; Frank L. Reissner, Indianapolis Bond and Share Corporation, Indianapolis.

Term to January, 1950—To fill vacancy:

Michael D. Dearth, McCrary, Dearth & Co. Inc., Des Moines, Iowa.

The retiring members of District Committee No. 8 are:

Paul E. Alm, C. L. Schmidt & Co. Inc., Chicago; Duncan M. Rowles, Harris, Hall & Company (Incorporated), Chicago; James F. McCloud, Kirkpatrick-Pettis Company, Omaha; and Cecil W. Weathers, City Securities Corporation, Indianapolis.

District No. 8 of the Association comprises the States of Illinois, Indiana, Iowa, Michigan, Nebraska and Wisconsin.

Gilbert Sharples With J. A. White & Company

CINCINNATI, OHIO — J. A. White & Co., Union Central Building, Cincinnati municipal dealers, announce that Mr. Gilbert M. Sharples, formerly of Sharples, Becraft & Co., Inc. is now associated with them as Central Ohio Representative, with headquarters in Columbus. Mr. Sharples is widely known in the investment field, particularly in New York. He started in the municipal business in 1920, with W. L. Slayton & Co., Toledo. In 1923 he opened an office in New York for this firm. In 1927 he joined the firm of George H. Burr & Co., in charge of their municipal department in New York. Subsequently he became associated with Stranahan, Harris & Co., and later was made Assistant Vice President of R. S. Dickson & Co., both of New York. In 1934 he organized the firm of Sharples, Becraft & Co., New York, to deal in municipal bonds.

Gilbert M. Sharples

J. A. White and Co. have been active in underwriting bonds of Ohio municipalities and school districts. Recently the firm established representatives in Toledo and Columbus. Placing Mr. Sharples in Columbus is a furtherance of the program of the firm to make its coverage of Ohio more complete.

First Boston Group Completes Sale of Phillips Pet. Common

The investment banking group, headed by The First Boston Corp., which underwrote the offering of 1,007,517 shares of Phillips Petroleum Co. common stock, announced Dec. 5 that the issue had been completely sold.

The offering, which constituted one of the largest pieces of equity financing in recent years and one of the largest ever offered initially to company stockholders, was subscribed for to the extent of 983,507 shares or 97.62% of the issue. The remaining 24,010 shares were taken by the underwriters and sold by them.

Rights to subscribe, which were on the basis of one share of the new stock for each five shares held, at $49 per share, expired Dec. 3. Proceeds of the financing are for new capital expenditures.

Toppers Announce Their Annual Xmas Party

The Toppers, an organization of municipal bond traders, will hold their annual Christmas party on Dec. 22 at the Hotel St. George, Brooklyn. Luncheon, other refreshments, etc. from 12 noon to 4:30 p.m. will be the order of the day, with discussion during luncheon directed by Joseph Cross, Henry Milner, Karl Pancke and Jack Reno.

All planning to attend should notify Gerald W. Brewster, F. S. Moseley & Co., New York City before Dec. 15.

Louis Dreyling in Jamesb'rg

JAMESBURG, N. J.—Louis R. Dreyling is engaging in a securities business from offices on Gatzmer Avenue.

Preferred Stocks for Trust Investment

(Continued from page 4)

friend, the advocate of preferred stocks. I personally cannot long delay coming to his rescue because I am really on his side, although with certain very definite reservations. I am firmly convinced that preferred stocks are not only suitable, but at times actually attractive, for trust investment *provided* we do three things in our investment analysis and portfolio supervision. They are all important.

First, we should buy only those which are high grade, so that we can come as close as possible to avoiding reliance on preferential rights, protective clauses, and all of the ineffective provisions designed to make a stock look like a bond.

Second, we should treat preferred stock holdings as perpetual securities and arrange bond maturities accordingly.

Third, we should make a real effort to time purchases intelligently so that we do not tie up funds in perpetuity at peak prices or at unattractive spreads from good quality bonds.

I must agree with the skeptic who comments, "Easier said than done." But, in my mind, if we cannot do an intelligent job on selection and timing, the case for the negative cannot be refuted. We must improve upon the unsatisfactory *average* experience of investors. Otherwise, we had better decide to stick to bonds or, when permitted to go the whole way, with common stocks.

Selection

We can all recognize the preferred stocks which have proved to be desirable investments. But how do we determine the ones which will make a similar creditable showing in the future? The recent amendments to the Pennsylvania Fiduciaries Act certainly do not give a specific answer. The new Subsection 16 of the Act quite properly emphasizes the exercise of judgment and care under the circumstances prevailing. I should like to describe very briefly the five principal standards and tests which I have observed to be effective in selecting good industrial preferred stocks:

First, industry analysis. One must have a clear understanding of industry trends. They must be favorable or at least satisfactory. A useful double check on this appraisal is to review the record of other issues in the same industry. Here is the place to give full weight to the factor of management in considering an individual company against its industry background.

Second, capitalization analysis. Because book values have so little real meaning, it is preferable to take bonds (if any), preferred stocks, and common stocks at market prices. Currently, the 1947 low price for the common stock might be used to avoid overstating the equity position. While stable or growing industries can carry a higher proportion of senior securities, it is a good rule to be careful whenever funded debt and preferred stocks together constitute over 25% of total capitalization computed in this manner. It is also important to adjust this general standard for the amount of debt. For example, if debt is 5% or less of the total, preferred stock may safely be 25%; whereas if debt is over 15% of the capitalization, even a nominal amount of preferred stock may be unstable.

Third, earnings analysis. The ratio of net income to combined interest charges and preferred dividends should be averaging in excess of 3 to 1, but the stability of earning power is equally important. You will find that if earnings per share of preferred stock in bad business years have been not less than 40% of earnings in good years, the degree of stability is probably adequate to insure continuity of dividends and a fair degree of market stability.

Fourth, current asset protection analysis. The relationship of net current assets (after deducting prior securities, if any) to the outstanding preferred stock is important only when a stock is deficient in either the volume or stability of earning power. To make any significant difference in this relatively unsatisfactory kind of a picture, net current assets should be at least 50% of the face amount of the preferred stock.

Fifth, protective provisions analysis. It is desirable to have favorable protective provisions even though they cannot be relied upon to prevent deterioration in the security. Some of the more important things to look for are fully cumulative dividends, a good sinking fund, clear preference as to assets, the right to veto the issuance of prior securities, and adequate voting rights in the event that dividends or sinking fund are in arrears.

I have discussed this problem of selecting high grade industrial preferred stocks at some length and in rather technical terms because this is the most important field for trust investment, and it is also the field presenting the greatest variety in analytical problems. At the end of October, for example, 62% of the market value of preferred stocks listed on the New York Stock Exchange were industrial issues, 23% public utilities, 13% railroads, and the balance miscellaneous and foreign.

You will pardon me, I am sure, if I pass railroad issues without a word, and dismiss public utility preferred stocks with the statement that the selection of high grade issues requires no techniques different from those used in appraising public utility bonds. The character of the management, the nature of the territory, the types of business served, the rate structure, the type of regulation, the relationship of the debt and preferred stock to the sound value of the property, engineering and construction standards, the earnings coverage, future capital requirements, the protective features in the mortgage bonds and in the preferred stock—all of these factors are substantially the same ones to be considered in dealing with the public utility bonds.

I believe that most of the same standards which I have discussed for the selection of good industrial preferred stocks can also be used in selecting good public utility preferred stocks. However, a utility company, because of the stability of its business, can carry a larger proportion of senior securities. Utility companies can be conservatively capitalized with debt and preferred stock outstanding at 55% to 70% of sound property value. Combined interest and preferred dividend coverage should be 2½ times or better. Current assets protection is virtually meaningless in the public utility field, but protective provisions are important.

Timing

Having assigned to us "men of prudence, discretion, and intelligence," as we are described in the Fiduciaries Act, this formidable, yet I believe reasonable, task of selecting the good stocks, I now insist that such purchases must be advantageously timed to make them appropriate for trust investment. Let me illustrate the importance of this subject by reference to a short swing in the index of six high grade non-callable industrial preferred stocks which I have constructed for the period 1923 to date. For May 1944 this index showed a yield of 3.91%. During the next 14 months prices rose rather persistently, until the yield reached a new low of 3.35% in July 1946. Last week, the index again reached 3.91%.

To discuss the question of long-term interest rate trends would require a separate occasion, and I shall not attempt today to guess at buying points for preferred stocks. But this much is clear from my illustration: a year or two in timing purchases can make a big difference in the amount of income produced and the protection provided for principal. My illustration of a recent swing of 56/100ths of 1% per annum within a relatively short period meant 16% more income or 16% better prices, whichever way you care to look at it. This is certainly important, especially when you recall that the rate of return for the life of the trust is probably being determined at the time of purchase.

I appreciate that this question of absolute prices is a difficult one because as a rule we have to invest the funds when we receive them. Nevertheless, we can buy fewer preferred stocks, just as we place less emphasis on long-term bonds at times when we believe that we are rounding out a peak in long-term security prices.

In any event, regardless of the absolute levels of prices, we can and should consider the yields on high grade preferred stocks relative to the yields on high grade long-term bonds. To illustrate this question of spreads, I shall refer again to my index of six high grade non-callable industrial preferred stocks and the movements of this index relative to Moody's AAA industrial bonds. It is interesting to review the history of this spread very briefly. From 1923 to 1926, the typical spread was just over ½ of 1%. The optimism of the 1928 to 1930 period produced a narrowing to ⅛ of 1%. From 1933 to 1935, the typical spread was ¾ of 1%. Then came a surprising development: for the immediate prewar years, as these stocks ran into real resistance at around the 4% yield level while bonds continued to rise, the spread increased to about 1¼%. By July 1946, the two indexes had come together sufficiently to leave a differential of only 95/100ths of 1%. Since that latter date, yields have been rising in both series, so that by October the spread had increased to 1.15%. Within the last few weeks the differential has been 1.20%, making a total adjustment of ¼ of 1% since the peak prices of July 1946. It appears that industrial preferred stocks are now reasonably priced in relation to long-term bonds. Obviously, the spread can widen further during this period of adjustment, particularly if an unfavorable view is held generally as to the outlook for long-term interest rates.

As a footnote to this discussion, I should like to remind you that I have been talking about relatively high premium industrial issues. Low dividend rate stocks typically sell to yield ¼ of 1% less than those included in my index. In my opinion, the wider spread in the 1930's and 1940's compared to the 1920's is attributable largely to the increases in corporate taxes which have had the effect of significantly reducing earnings applicable to preferred dividends without affecting true coverage of deductible bond interest.

The pattern of spreads in the public utility field has been very similar to that for the high grade industrial preferred stocks, with the exception of the 1923-1926 period, when the investment characteristics of the public utility business were not fully recognized by investors. In that period the typical spread between high grade public utility bonds and preferred stocks was about 1½%, compared with ½ of 1% for industrials. Currently, the differentials are substantially the same in both fields. However, at present, market conditions are such that new issues of public utility preferred stocks must be offered at a concession of close to ¼ of 1% in yield relative to issues which have already been distributed.

Summary and Conclusions

This discussion has ranged far and wide, from corporation finance to security analysis to interest rates. It is now appropriate by way of summary to pull all of these thoughts together into the statement of a point of view on the basic question: "Are preferred stocks suitable for trust investment?" Here is my answer, stated more categorically than is actually justified, but I shall refrain from qualifying remarks, disclaimers and weasel words in the interest of clarity and brevity. It is a "yes, but—" answer.

First: Preferred stocks as a group, or on the average, are not suitable. However, high grade issues do exist which will prove satisfactory alternates for long-term bonds without undue risk and with beneficial effects on the average rate of return derived from a trust portfolio.

Second: Many basically unsatisfactory preferred stocks pass for high grade issues in the present market. Careful appraisals of individual stocks must be made to avoid the acquisition of "fair weather friends" in this period of great pressure for income.

Third: Timing of purchases is very important. If the trends of recent weeks continue, there may be reasonably favorable opportunities to add high grade preferred stocks to trust portfolios for the improvement of average yields. The same view does not hold as to medium grade issues because they are too greatly subject to the influences of business conditions generally.

Jack Alexander With Bourbeau & Douglass

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Jack H. Alexander has become associated with Bourbeau & Douglass,

Jack H. Alexander

510 South Spring Street. He was formerly in the trading department of Pledger & Co., Inc. and prior thereto was with Akin-Lambert Co.

With Walston, Hoffman

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—John A. Clancy has become associated with Walston, Hoffman & Goodwin, 235 Montgomery Street, members of the New York and San Francisco Stock Exchange. Mr. Clancy was formerly with C. L. Vertin & Co. and its predecessor, Herman, Hampton & Co. of Salinas.

Canadian Securities

By WILLIAM J. McKAY

To an unbiased observer it is difficult to reconcile, with the facts, many of the criticisms which have been recently leveled at the Canadian Administration. For this reason it should be a comparatively easy matter to present convincing arguments in rebuttal. As with the British and other European situations the root cause of the aggravation of the current Canadian problems is the unsettlement of the world economy as a whole.

In the light of actual developments the hindsight critic certainly can confront the Dominion Government with an apparent error of judgment in extending over-generous credits for the purpose of foreign relief and rehabilitation. When such aid was granted, however, there was lavish praise of Canada's foresight and wisdom in strongly supporting the efforts of this country to restore the trade and finances of war-ravaged Europe. In the absence of such a policy moreover, how much worse would Britain and the other assisted countries have fared? Also how would Canada otherwise have disposed of her abundant export surpluses, and how else would the Dominion have been able to stimulate the domestic production to record heights and thereby achieve a maximum employment?

Of lesser import, but a criticism that has been accompanied with the loudest fan-fare, is directed against the action of the Canadian authorities in restoring the Canadian dollar to its customary parity. This step has been condemned as the basic cause of most of Canada's present difficulties and no heed is paid to the fact that the motivating factor at the time of revaluation—the protection of the Canadian economy against the inflationary pressures from south of the border — still holds good. Also forgotten is the previous universally lauded success along similar lines of the same administration which during the war gave the people of Canada the fewest inconveniences and the most comfortable standard of living in the world.

Another bone of contention is the government policy which permitted the so-called "Canadian buying-spree" following the revaluation of the dollar. Here perhaps defensive measures might have been instituted to stem the pent-up Canadian demand for U. S. luxury goods following the abstinence of the war-years, especially as the increase of 10% in the value of the Canadian dollar placed a corresponding discount on U. S. prices. In this connection, however, consideration must also be given to the fact that at the time Canada had an apparent superabundance of foreign exchange reserves; the imposition of import restrictions under such circumstances would indeed have provoked the current charges of bureaucratic autocracy and certainly with greater justification. It must not be forgotten also that an important proportion of the goods imported during the "buying spree" were purchased at considerably lower levels than those now prevailing and many items constitute a valuable contribution to the Canadian economy.

To add to their present trials and tribulations the Canadian authorities are also called to account for their decision to subsidize their domestic gold-mining industry. On this subject there exists undoubtedly considerable confusion. As far as Canada is concerned, gold for the purposes of the subsidy is just another commodity, the production of which is important in the national economy. The stimulation of the domestic production, which will assist to correct the world-shortage of U. S. dollars, is also a more practical approach to the realization of the objectives of the Bretton Woods currency schemes than the almost fanatical attachment to the sacrosant price-level for gold of $35 per ounce.

* * *

During the week the market for external bonds suffered a further decline in line with a similar move in domestic corporates with which category the Canadian externals are usually compared. The internals, following the movement of free funds, first weakened sharply but subsequently recovered a part of their losses. Stocks were dull and irregular with the golds still in the doldrums but the paper and oil issues made a somewhat better showing. Itis now evident that Canada is making a great effort to boost the domestic production of oil. Considerable success has already been achieved in the west and there are now reports of drilling by Imperial Oil in the promising area of the Gaspe Peninsula.

Cowen & Co. to Admit

Cowen & Co., 54 Pine Street, New York City, members of the New York Stock Exchange, will admit George N. Cowen to partnership on Jan. 1. Lyman G. Bloomingdale, a member of the Exchange, will withdraw as a partner in the firm on Dec. 31.

Paul Herold Opens

Paul J. Herold, national wholesale distributor of Thomascolor Incorporated securities, has opened an office at 141 Broadway, New York City it is announced.

Lloyd Named to Head Bond Club of Phila.

PHILADELPHIA, PA. — H. Gates Lloyd, partner of Drexel & Co., has been nominated for the office of President of the Bond Club of Philadelphia in 1948 by the club's nominating committee, to succeed William K. Barclay, Jr. partner of Stein Bros. & Boyce, the 1947 President. According to Club tradition nomination is tantamount to election.

H. Gates Lloyd

Other nominations announced by the committee are: Loring Dam, Eastman, Dillon & Co., Vice President; John F. Bunn, Jr., Bioren & Co., Secretary, and William Z. Suplee, Suplee, Yeatman, Treasurer.

For three places on the Board of Governors the following have been nominated: William K. Barclay, Jr. for term expiring in 1948; Walter W. Buckley, Buckley Brothers and Wallace M. McCurdy, Thayer, Baker & Co. for terms expiring in 1950.

The annual election will take place at the Club's luncheon meeting on Dec. 15 at the Union League.

Boston Invest. Club Re-Elect Officers

BOSTON, MASS. — The annual meeting of the Boston Investment Club was held on Wednesday, Dec. 10, at the Boston Yacht Club.

The nominating committee, composed of Clair C. Pontius, Chairman, of R. L. Day & Company; Ralph Dibble, of Merrill, Lynch, Pierce, Fenner & Beane; Alfred Fuller, of Vance, Sanders & Company; Thomas Johnson, of Eaton & Howard, Inc., and Paul S. Vaitses, Jr., of Cannell, French & Copp, submited for re-election the present officers, namely, President, Robert G. Gerrish, of Whiting, Weeks & Stubbs; Vice-President, Andrew G. Weeks, of Blyth & Co., Inc.; Secretary Robert S. Weeks, Jr., of Coffin & Burr, Inc.; Treasurer, E. Wallace Sleeth, of White, Weld & Co.; and Publicity Chairman, John J. D'Arcy, of F. L. Putnam & Co., Inc.

Following the election of officers, the guest speaker will be Walter W. Cenerazzo, President of the American Watchworker Union. Mr. Cenerazzo, who has had many articles published in leading magazines, is nationally known as one of the most enlightened labor leaders in the country. His ability to appraise management's side of the labor picture as well as the union's side makes him outstanding in that respect. His talk should prove most interesting to the club members where they are engaged in the business of raising capital for industry.

To Be Batkin & Co.

Effective Jan. 1, 1948, the firm name of Batkin, Jacobs & Co., 32 Broadway, New York City, will be changed to Batkin & Co.

Mitchell Hutchins to Admit

CHICAGO, ILL.—Mitchell, Hutchins & Co., 231 South La Salle Street, members of the New York and Chicago Stock Exchanges, will admit Chauncey K. Hutchins to partnership as of Jan. 1, 1948. Mr. Hutchins has been with the firm for some time.

The Steel Industry Outlook

(Continued from first page)

country to its present dominant position among the nations of the world. Today the United States makes more steel than all the rest of the world together.

Now the principal function or principal use of steel is that of a structural material, and not so much a decorative material. Why is steel a dominant material? If we compare steel with any other structural materials, it so outweighs them in volume, tonnage and use that there must be some good reason for it.

During the war we heard many stories and read many articles about dreams of beautiful homes and automobiles, and practically everything you could think of, made out of plastics, but I think that idea has pretty well died out. Plastics have very definite functions and very definite properties, but they are not structural materials. Perhaps one of the best illustrations of plastic and the use to which it has been put is in a nylon stocking. It is a perfect illustration of a good use for a plastic.

On the other hand, if you could think of an automobile body made of plastic—well, it would be possible to make one—Henry Ford spent a lot of money trying to do so—but if you had such a body, you certainly would not want it; it would be ridiculous. We have sort of a habit of bumping our fenders against the back of somebody else's car, and so on. If you did that with a plastic fender, you wouldn't have any fender, and it would be rather expensive to replace.

Steel is dominant for definite engineering reasons which I will try to illustrate in non-technical language. First of all, it has what we call a high modulus of elasticity. That simply means you can apply a load to it, a stress to it, and it will deflect very little. Compared with aluminum, it would only stretch, if you had a bar and tried to use it as a lever, one-third as much.

Now that is very important because in our present sructures we do not want them to deflect or to change their shape or their form. Steel has a higher modulus of elasticity than any other common metal. The only competitive metal that might be considered as a structural material is aluminum or the aluminum alloys, including magnesium, which have, I say, about one-third of the elasticity of steel.

A second factor that is extremely important is that steel I mean that you can take an ordinary piece of steel—a piece of structural steel—and you can apply a load to it equivalent to approximately one-half its maximum strength. After you have removed that load, the steel will come back to exactly the same size and form that it was before. None of the other metals has that property. Take any aluminum alloy. If you would apply a similar load to it, let us say up to half its strength, it would take a definite deformation. And of course in any permanent structure like a building or a bridge, you can't have the thing sagging down. That is from an engineering standpoint an extremely important factor in connection with steel.

Then another factor is that steel has an extremely wide range of ductility and toughness. In other words, you can have a soft steel, such as we make automobile bodies out of, which has the strength of say around 50 pounds per square inch, or you can have hard steel, alloyed steel, with a strength of say 200 pounds or more per square inch. And you can vary that all over the lot. You can have a hard exterior and a soft interior, so as to get toughness on the inside and hardness to withstand wear on the outside. You can make from it materials that you can scratch easily with a knife, to a material that is next to the precious stones in hardness. And you can make all kinds of combinations. There is no material so versatile as the alloys of heat-treated steels.

Another factor that is important is that steel has the lowest coefficient of expansion. That is a simple engineering expression, and by that we mean that when you change the temperature, the materials will expand or contract. Steel will expand only about half as much as aluminum when you raise the temperature, and that is important in many applications. You don't want your structural materials to change, because that generally produces stresses and other difficulties.

A simple illustration of what kind of difficulties you run into is the use of aluminum roofing. There have been a lot of aluminum roofings applied in recent years, since the war, because galvanized iron was not available; but as the sun strikes the aluminum roof and it gets hotter, it expands more. It either takes the nails away from the rafters or it enlarges the nail holes. That keeps on being repeated time and time again until eventually your roof is loose. A good wind comes along, and the barn roof is out in the field. That is a very common thing out our way in the Middle West.

Another thing about steel is that there is no structural material as common or as cheap to produce, or so easily reduced from its ores, as irons. Steel is only an alloy of iron. Common steel is iron, carbon and manganese. Other metals may be added, such as molybdenum, nickel, tungsten, and so on—all imparting various properties. That gives you a little background of what steel is and some of the reasons why it is the dominant structural material.

Present Steel Demand Abnormal

There has been a good deal of discussion recently as to the requirements for steel. Everybody is saying at the present time that not enough steel is forthcoming. Well, actually we are producing more steel than in any other peacetime year. Our maximum steel production prior to the last war was in 1929 when there was produced about 66 million tons of ingots. During the war we got up to practically 90 million tons of ingots. At the present time we are running somewhere around 85 to 86 million tons.

When we consider steel requirements we can't take too seriously the present abnormal condition. We better go back and have a look at the historic demands. I think that will give us a clear picture of what is needed.

During the period from 1911 to 1920, which included the first World War, but in which the consumption of steel was relatively small compared to what it was in the last war, we consumed in that decade an average of 666 pounds per capita.

In the decade from 1921 to 1930, we consumed at the rate of 770 pounds per capita. That was the period in which we were expanding our economy, building a lot of new buildings, and so on.

In the decade from 1931 to 1940, we, of course, went through the great depression, and our average consumption per capita dropped down to 576 pounds. However, when we take the period from 1921 to 1940 and average out between the peak period of the twenties and the fairly good years in the thirties but a lot of bad ones too—it comes out that the total consumption per capita over that twenty-year period is 668 pounds, or only two pounds more

than it was in the decade from 1911 to 1920.

I think that indicates that the consumption goes pretty much over a long period of time according to the population. There have been many factors contributing to a reduction in the per capita consumption, and they have to some extent counteracted the natural increase that might be expected. For instance, in automobile bodies —automobiles represent a large consumption of steel—we are today using gauges of steel much lighter than we could use 40 years ago, for instance. We have better quality steel. Take railroad rails. In a normal year now, when the railroads have any money to spend, they require about two million tons. Back 20 or 25 years ago there were many years when they used three million tons. The result of the reduced consumption is the better quality and the heavier sections. So you see, while we expect an increase, I think there are factors that tend to decrease the use, so that it works out over a long period that the consumption per capita is fairly constant.

Now if we look back over the period of peak production in 1929, we find that the per capita consumption was 978 pounds per capita, or roughly say 50%—somewhere around 40 to 50%—above the average over the longer period. On that basis, and making some allowance for greater uses in the future, I think we can assume that our normal consumption will be somewhere on the order of 700 pounds per capita, and our peak consumption perhaps 1,000 pounds per capita. On that basis we find that our peak demand will represent about 80 million tons of ingots. That is not at the present moment, but what you might expect in normal peacetime operation, when we are not trying to fill a lot of pipe lines.

We have a capacity at the present time of 91 million tons. It is not all economic capacity; some of it is marginal. It is practically all being used. The only thing that is keeping us down below 100% capacity is the lack of scrap and the shortage of labor.

There are additions being made to our existing capacity. I estimate that our real economic steel capacity in this country today is somewhere around 82 to 85 million tons. In other words, that is a little bit more than perhaps we might expect as a peak demand, but, of course, you can't gauge these things too closely. We are adding at the present time, in spite of the claims that we are holding back, put out by some government agencies — we are adding two and a half million tons of ingots, three million tons of iron, and three million tons of coke capacity, besides additions to many rolling mills, or additional rolling mills, and additions to finishing capacity. These expenditures represent a total, of the programs under construction at the present time, of about $1 billion.

Future Demand for Steel

Now what of the future? Professor Martin Barloon, in an article in "Harper's Magazine" of August, 1947, talks about "Steel, the Great Retreat." His theme is that the ore bodies—for instance, we have been drawing most of our ore supply in the Mesabi Range—are being depleted to such an extent that future additions or future steel production will have to be on the Atlantic seaboard, and ore will be brought in by boat from foreign lands, such as Labrador, Venezuela, Chile, Brazil, Sweden.

The only trouble about Mr. Barloon's prediction is that it is not based on fact or knowledge of the facts. At the present time, in spite of the stories you hear, we have in sight or pretty close to sight—in fact we are pretty sure of some of the things but we don't want always to find our ore—according to competent geologists about 1,300,000,000 tons of high grade easily mined ores, and that is not the total by a long way.

Under the present taxation laws, if you find a body of ore, you immediately have to pay taxes on it, so we are not so very anxious to go out and drill a hole in the ground and find a nice new mine unless we have need for a mine. If we do so, we may be paying taxes for the next 25 or 30 years before we get down to using it. There are large areas which have not been explored, and in which we are pretty certain there are large bodies of ore, but we don't want to find them under present tax conditions.

Iron Ore in Sight

I think we have in sight enough ore to last us say for 30 or 40 years; that is the ordinary, high grade, easily mined ores. But that is not the end of the steel business by a long way on the Mesabi Range. There are large quantities of magnetic taconites—that is a technical name; it is simply a magnetic iron mixed with silica which has to be concentrated. We have to remove the silica or a large part of it, so as to have material fit to be put into a blast furnace or any other purpose.

We know the way to do that. In the last few years there has been a great deal of investigation carried on, and we know how to concentrate those ores, but, of course, it will cost more to take those ores, crush them, concentrate them and then put them together again into lumps that you can use, than it will be to dig ore out of an underground mine or out of an open pit. But the amount of additional cost is not so much that it would seriously increase the price of steel. I don't think it would be very significant

Now that kind of material, known, in sight, represents 5 to 10 billion tons of high grade concentrates, which, depending on what you assume the consumption to be, is good for another 75 to 150 years after the easily mined ores are exhausted.

But that is not all. There is other iron-bearing material which is not magnetic, that we think we know how to concentrate today. We could make the iron magnetic so it could be concentrated by the same methods as the ore previously referred to. And of that material there is in sight from 30 to 40 billion tons of concentrate—enough to last us, oh, for 400 or 500 years or something like that; and beyond that I don't think we will be worrying about it. But you will see there is no danger of any exhaustion of the ores or materials that can be used for ores in the Mesabi Range.

Steel plants are located at the best point in relation to the market and the cost of assembling materials. If we had our steel mills concentrated on the Atlantic coast, we would have to pay freight on the products out to the points of consumption. It happens that the center of manufacturing has been progressing steadily westward over the last 150 years. In 1800 it was just outside of New York; now it is a little south of Chicago. Freight on raw steel products today from New York to Chicago, for instance, is about $14 a ton, so that if we got some cheap ore we would have a penalty of something in that order to get it to the center of our mine. Then in the manufacturing areas you can create scrap. About 20% or so of the material you start off with becomes scrap. That is now returned to the steel mills and remelted and used over again. If that had to be returned say to the Eastern seaboard, you can figure an expense of say $11 a ton to get it back from Chicago again, and then you have the freight on that again going west. So you see there is quite a margin to work on to cover the cost of a concentration of these lower grade ores. In fact, I estimate that the cost of steel made out of these lower grade ores exclusively and the usual mixtures of scrap would probably not increase more than $2 to $3 a ton, and of course you see the cost of freight would very much overbalance any such additional expenditure.

Reserves of Coal

The next raw material we are concerned with is coal. Fortunately this country is endowed with vast quantities of coal; some that is better than others, and some more suited for metallurgical purposes than others. But considering just the metallurgicals, we have such tremendous quantities that there is not any shortage in sight for at least as long as the iron ore will hold out, or say 500 years anyhow.

The only difficulty is that we will have to put in cleaning plants, because, as the cost of mining coal, with your increased wages, has gone up, we can't any more carry out the old coal mining methods in which the coal was loaded by hand and where the miner selected the coal from the slate. Now we will have to mine all by mechanical methods and separate the slate and other impurities from the coal at outside cleaning plants. That would add something say on the order of 20 or 25 cents a ton to the cost of coal; but we have no real shortage of that very necessary material.

Fuel Oil Supply

One item that most steel companies use, that is rather short at the present time, is fuel oil. We never will be held up definitely by a lack of fuel oil because we can use gas, either the natural gas or manufactured gas. If fuel oil is used, you get a little faster operation, and that of course reduces costs; if fuel oil gets too expensive we will go back to the process we used prior to the abundant supply that was available in the past.

At Limit of Productivity

In connection with the supply of steel I would like to bring out one fact that is generally overlooked. I think when some of our economists, especially those in the government service (and the chief expert seems to be in the Agricultural Department), say we should have a capacity to produce 120 million tons of ingots per year, they overlook one very important fact: We are at the present time at about the limit of our productivity. If in some way we could increase the capacity of our steel plants overnight, we couldn't operate. We are using all the labor that is available; and I think if we would have a great deal of steel, more steel available, the consumers would find they couldn't use it. There would be more bottlenecks croping up—if bottlenecks crop up.

I think there is a little misunderstanding of what goes on. For instance, at the present time the automobile industry is running at the rate of five million units per year, and out of that about 3,600,000 are passenger cars and about 1,400,000 trucks. The trucks naturally take more steel than the passenger cars. But if that is translated into about the average proportion that you would expect in a five million unit year, you would have about four and one-quarter million passenger cars and about 750,000 trucks. If you take the amount of steel the automobile industry is consuming at the present time, you will find it represents about the maximum they ever used. The biggest year is five and one-half million units; and I think their steel consumption this year will probably equal the maximum they ever had; so they are really not so badly off although they cry very bitterly they have no steel.

Supply Will Soon Balance Demand

I think the same applies to a great many other industries. I feel we are approaching the time when we will have a steel supply in balance with the demand. The shortest items at the present time are sheets. There are many projects under way to increase the supply of sheets. At the present time we are running at the rate of somewhere between 18 and 19 million tons per year, and projects are now being worked on and will be completed in 1948—our own project about the middle of the year I think—which will increase the capacity to produce sheets to something like about 22 million tons. So that I feel securely confident in predicting that in 1948 we will be able to have the supply meet the demand.

With First California

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Oliver H. Ritchie is now with First California Company, 300 Montgomery Street.

Charles Williams Is Edw. J. Duffy Partner

Charles J. Williams has been admitted to general partnership in the New York Stock Exchange firm of Edward J. Duffy & Co., 111 Broadway New York City. Mr. Williams has been in Wall Street for more than 30 years having formerly been with W. E. Burnet & Co. and Mackay & Co. During 1936 and 1937 he was a governor of the N. Y. Produce Exchange. He was one of the original reorganizers of Standard Gas & Electric Corp. from 1935 to 1940. In addition, he has contributed to Barron's and other financial publications and has been engaged in private analytical work for individual members of the Exchange.

Charles J. Williams

Akin-Lambert Corporation

LOS ANGELES, CALIF.—Akin-Lambert Co., 639 South Spring Street, members of the Los Angeles Stock Exchange, is now doing business as a corporation. Officers, all of whom were with the partnership, are Gerald C. Lambert, President; James A. Reeves, Vice-President; George C. Jenkins, Vice-President; Alvin G. Low, Secretary and Treasurer; and William G. Maginnis, Assistant Secretary.

Evans With Crummer Co.

ST. PAUL, MINN.—James H. Evans is now Resident Manager for the Crummer & Co., Inc. of Texas which has opened a branch in the First National Bank Building. Mr. Evans previously conducted his own investment business in St. Paul.

Simpson Visiting Coast

Bryan E. Simpson, B. E. Simpson & Co., California Building, Denver, Colo., will leave on Dec. 12 on a business trip to San Francisco, Los Angeles and Sacramento, returning to Denver on Dec. 30. He will be accompanied by his wife.

Long-Term Trends in Industry

(Continued from page 6)

means dependency, fire insurance to cover home and possessions, casualty insurance to cover liabilities, burglary insurance to cover possessions. And finally, the business of marriage dissolution, which unhappily we must also expect to rise with marriages, is likely to operate at a high level; prosperity is likely for Nevada, Florida, and other states with easy divorce laws. The lawyers, as usual, get it both ways: fees for title work of home acquisition and fees for divorce.

Present High Birth-Rate

Let me now turn to a second major trend, which has to do with the consequences of the physiological processes of a man and a maid.

The number of children arriving in the United States is and has for some time been unprecedentedly large, as Chart II shows. This fact is, of course, related to the large number of marriages, also is due in some part to the deliberate deferment of children during the war and even during the preceding depression, and also is influenced by the high level of incomes. It also probably reflects to some degree the optimism reflected in the marriage rate. And it is interesting that this marked expansion in the birth-rate is a phenomenon which has appeared in recent years in virtually every country all over the world for which figures can be had.

CHART II

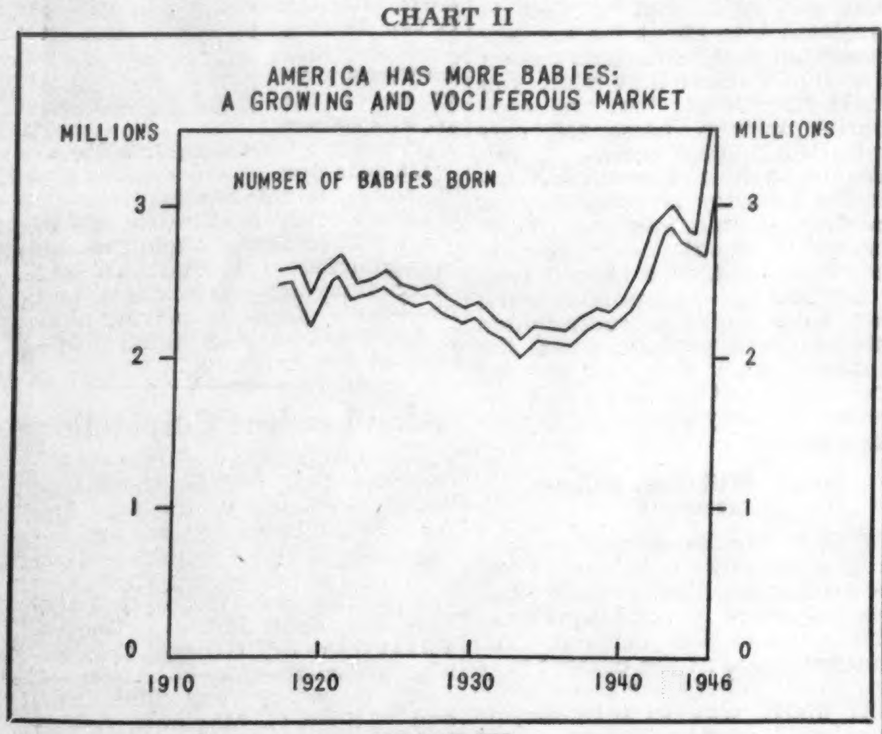


CHART III

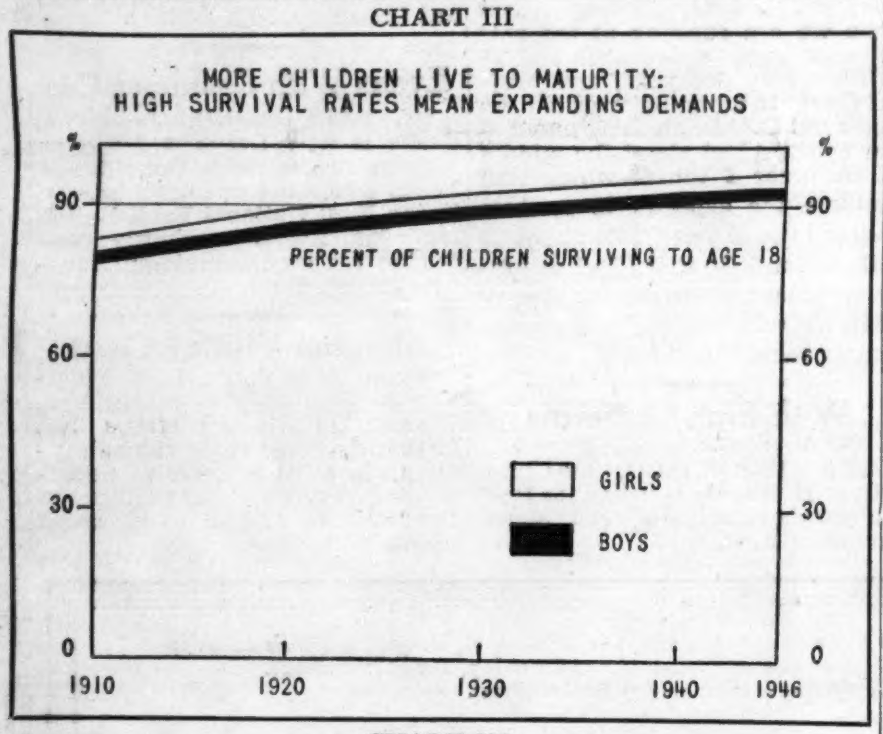
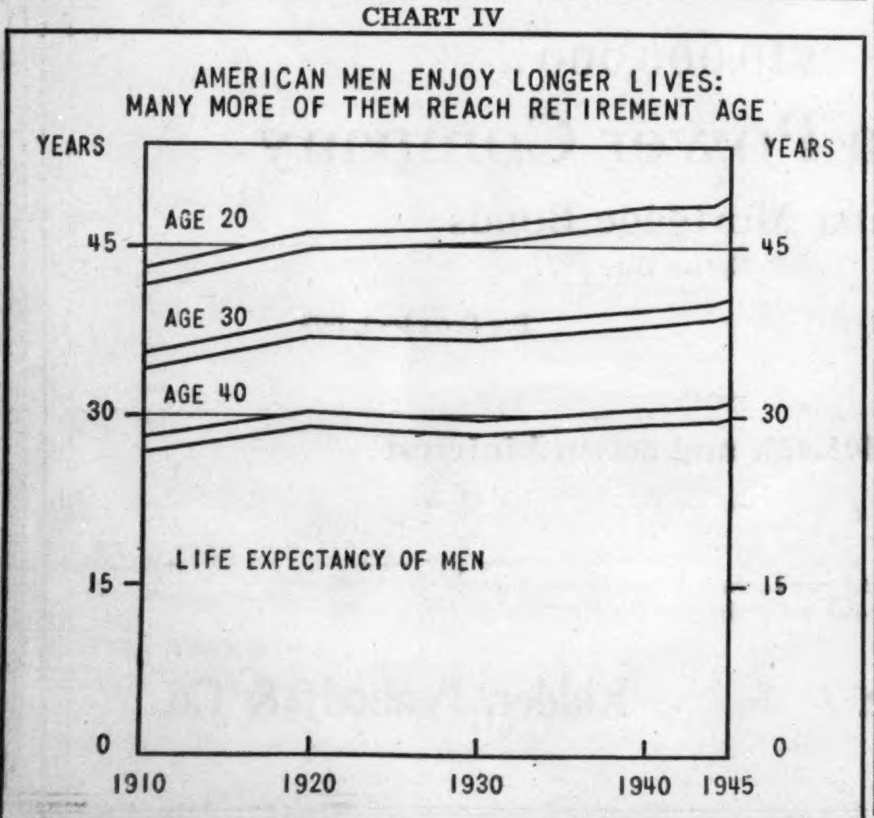


CHART IV



Whether the rate will remain high, I shall leave to those who have the daring and the wisdom to do forecasting. The demographers appear to be dubious—but without depreciation it may be noted that when they made some doleful projections about population size trends 10 to 15 years ago they did not anticipate the present development. In any event the fact is that we have a very large number of children and they are still arriving in very large numbers. And if the ordained course of natural impulses of thousands of years is not soon changed, we shall certainly have a very large number again over a period of 20 to 24 years hence, again in about 40 to 45 years, and again in about 60 to 70 years—and so on down through a very long period of time.

Not only are children arriving in very large numbers, but an associated fact is that more of them are surviving, and surviving longer, as Chart III shows. The proportion of children at birth who may be expected to survive at least to age 18 has been steadily rising for a long time as medicine, surgery and sanitation have improved.

These two associated facts of very numerous babies and very high survival rates mean that we shall have for a long time an unusually large number of children in the American population. And this would seem to mean a long-term trend of large demand in both boom and depression for children's products. This demand should be particularly well sustained because the children's needs are the least and the last to be cut even when the family experiences adversity.

You will be able to identify the products involved better than I can. One major group is surely children's supplies of all kinds, including apparel, housefurnishings, bicycles, publications, pianos and other musical instruments athletic equipment, and toys. Another which should have a long-term stimulated market is foods for young people, and milk I should judge to be one most markedly affected. A third is young people's services, with schools and camps with their necessary supplies being prominent. A fourth is certainly life insurance, since protection of children is one of the prime motivators in its purchase. And a fifth is the suburbs with all the stimulus to real estate and building and relocation of markets which is involved. The major parts of all American cities, preponderantly built 20 to 50 years ago are very ill designed for children by modern standards and rapid transportation makes outlying areas ever more accessible. For 20 years or more we have seen an outward movement of population in all cities, and I suspect that what we have seen thus far is only the precursor to what may be almost an explosion. And finally, though how to make money out of it isn't clear to me, the business of baby sitting is going to boom almost permanently.

CHART V

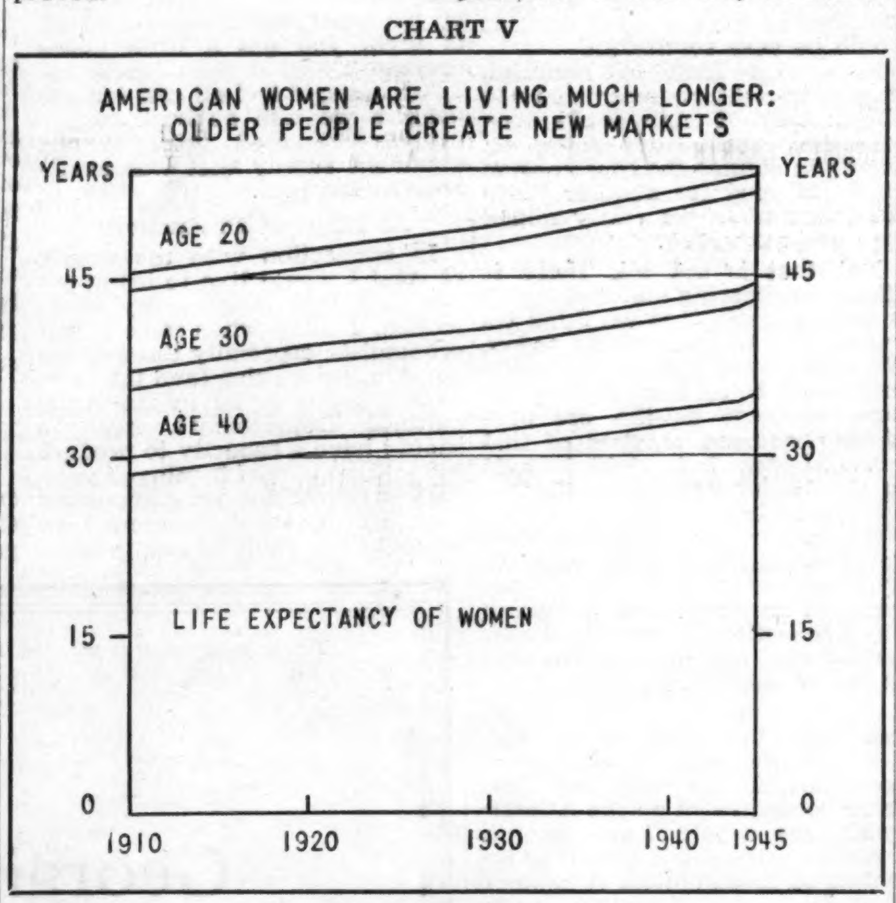
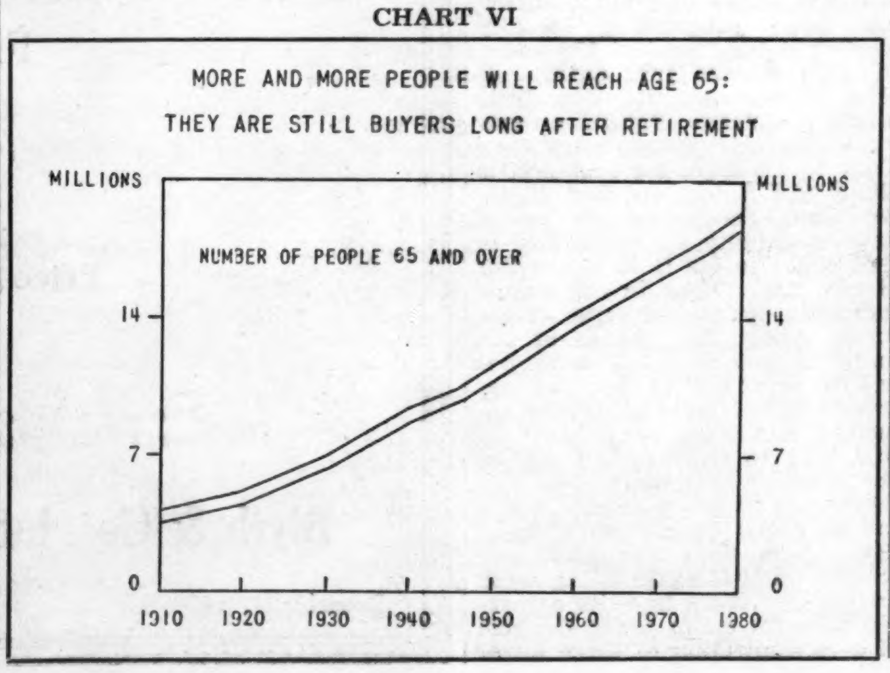


CHART VI



Longevity

The third major trend is that people of all ages and conditions are living longer. Life expectancy has been increasing steadily and rapidly for many years with the advances of medicine, public health and nutrition. With present sensational developments, and the devotion of far more attention and money to the subject, there is no end to this trend in sight—indeed it seems more likely to accelerate. It is said, for example, that the use of radio-active isotopes is the most significant development since the discovery of the microscope, and this is but one of many developments now underway or in prospect. Let us show you some facts on this subject.

Men at all ages have an increasing expectancy of life, as Chart IV, which uses three representative ages for illustration, demonstrates. Both the working years and the years of retirement are being prolonged. The odds are more than even that any man will reach at least 70.

The same is true of women—only more so—as Chart V shows. There is a widely held belief that women are the frail and delicate creatures with a tendency to fade and decline. No fiction was ever more fictional, no myth was ever more mythical, no fable ever more fabulous. The truth is that men are the frail and delicate beings, and that women are the tough brutes. At any age, the life expectancy of the female is somewhat greater than the male, and you will remember that I earlier showed you the same point about survival of babies.

The last picture in this connection, Chart VI, shows one of the results. The number of old people—those 65 and beyond—has been very rapidly rising, and, since the rise is greater than that of the population, the proportion of the population comprised of the aged has been rising. The first half of the line on the chart shows the numbers of aged for recent decades, and the latter half of the line projects the total—on conservative assumptions—to 1980. By that time the number of persons 65 and over will about double. Many of you here today are in the latter part of that line for some period of years in all likellihood—though the dissipation and wild life to which security analysts are supposed to be addicted could keep you out.

Now what does this rising life expectancy mean to business? As a generalization I would conjecture that it will mean over time a greater emphasis and demand for quality goods. A longer life expectancy may mean that when people buy they will want goods with longer utility.

More specifically, markets should have a long-term rising tendency for all the things which families accumulate, since more families will remain longer in the period of accumulation. A second group of items facing increased demand is likely to be pensions, annuities and life insurance to provide them. A third group is goods for the aged, including medicines and drugs, publications for the aged, opticals, hearing aids, etc. A fourth group is services for the aged, such as old folks homes, churches and church supplies hospitals, doctors, and recreation. An this trend has a very marked geographical aspect: I should think that Florida, the Gulf Coast and Southern California, with their kindlier climate, have only begun to grow. In years to come the green benches on the streets of St. Petersburg are likely to

stretch for miles where they now cover only blocks.

Redistribution of Income

The remarkable shift in the income distribution of the population of the United States is the fourth major long-term trend to which I should like to call your attention. Chart VII shows the distribution by incomes received of the family units of the country, and developments over the past two decades, using all the figures which are available. You can see the very great decline in the proportion of families in the lowest income group, and the expanding proportions which are in the higher groups.

This alteration of the income structure has accurred preponderantly as a result of the great rise in the total national income, with the preponderant proportion going to increase the number of dollars received in the lower categories. Indeed, in the highest group, which is not shown, a decline has occurred: it appears that the total income both before and after taxes in the brackets above $100,000 is now decidedly less than in 1929. It is not, of course, this decline which has boosted those at the lower end of the scale, for the total amounts are relatively very small. Another significant factor in the changed picture is higher prices, or the depreciation of the dollar, which is not taken into account in this picture. But even with adjustment for this factor there would still be an upshift.

Whether this condition will persist, I shall leave for the daring forecasters. But I would observe that a trend toward upshift has prevailed for many decades in this country with greater capital investment and accumulation of skills. And I would further observe that the technological advances of the last two or three decades which are only now getting into business, together with the increased economic and political power of the masses, point to a continuation. Reasons exist, therefore, for expectation that to no small degree the upshift is likely to be enduring.

The business meaning of such an upshift, I submit to you, is tremendous. Broadly speaking, it provides a great stimulus to mass production in every line, to mass distribution, to mass transportation.

Certain lines of business likely to be relatively stimulated are easily identifiable. One is housing and all related items, for we are truly an ill housed people, and we have a marked tendency to improve our living conditions whenever we can. Another is food, not so much in the total quantity to be consumed, but an increase in items called for by better balanced diets which the science of nutrition emphasizes. One of these is milk. A third group of businesses likely to be stimulated comprises all forms of travel, travel supplies and equipment, since another American characteristic is to go to see the other side of the mountain. Another is all forms of amusements, both spectator and participant. Another is education: we are seeing today the propensity to get additional learning when possible. Still another is services, such as public restaurants and hotels.

Finally, and perhaps of particular interest to you, I should think that the upshift in incomes would prove a very great stimulus to financial services of all kinds. Only a fraction of the population have hitherto had commercial banking accounts, and many millions more will now or presently want such service. Consumer financing of all kinds should have a long uptrend. Life insurance already has been mentioned, and with increasing ability of the masses to buy it is likely to rise to far larger totals. And since, with higher incomes, there will be more widespread savings, all investment instruments suitable to smaller savings should be greatly stimulated. But let me stress that all this reasoning applies to financial services for the masses, and not at exorbitant costs, rather than financial service for a selected relatively few big accounts.

Price of Machinery Versus Labor

The major long-term trend which is perhaps most striking of all is the enormous reduction in price of machinery and mechanical power *relative* to the price of labor. This is the fifth and final of the five trends. The cost of labor has risen steadily over a long period of years, and, during the past decade has zoomed upward spectacularly. The cost of machinery and mechanical power has risen only moderately—and in some cases actually declined. The result is that human labor, relative to mechanical labor, has become tremendously expensive; or, to state it the other way around, mechanical labor, relative to human labor, has become perhaps cheaper than ever before in history.

We have four charts relating to this point. They cannot, of course, cover the entire subject. Indeed, they can be little more than illustrative. Chart VIII shows the cost of labor in manufacturing over a long stretch of years, compared with the cost of electricity to a large commercial user. A kilowatt hour is now far cheaper relative to a manhour than at any previous time. Chart IX shows the cost of farm labor over a long period of years compared with a cream separator as illustrative of farm equipment, and shows what a very great bargain farm equipment has become relative to farm labor. Chart X shows the cost of a maid for the home as compared with the cost of a sewing machine, using the sewing machine as illustrative of household labor savings devices. And Chart XI, the last one, shows the cost of office labor as indicated by a typist compared with an average of four types of office equipment—an adding machine, a typewriter, a letter file cabinet and an office safe. The items used to compare with labor cost are only examples; it would be desirable to develop statistical averages of a number of items but time has not permitted, and, of course, the change in quality of equipment over a period of time prevents any accurate statistical measurement anyway. Likewise, for home and office labor we have had to construct our curves from classified ads in the New York "Times," and a more extensive development of figures would make the series more accurate. But I am satisfied that much more thorough statistical procedure would not alter the point.

With mechanical labor very cheap, and human labor very dear, there surely can be no doubt what is going to happen. For every possible task mechanical labor will be employed in preference to human labor in the factory, the office, the farm and the home. This trend has been underway, of course, ever since the industrial revolution started, but there are few if any times in the past when the trend had such an enormous impetus as it has today. (Let me say parenthetically that I do *not* believe this trend threatens us with great unemployment; that has never been its result, and there is no reason to believe that it will occur in the future.)

Generally, this situation provides an enormous stimulus to the production of mechanical power and the tools and gadgets to use it. Invention and technology have never had such a great market as this condition provides them.

Some of the major specific lines of business given a powerful upward long-term trend by this situation are easy to identify. Outstanding is the production of power in every form: electricity, coal, atomic, oil, gas, water—and incidentally, the more expensive that labor makes other power sources such as coal, the faster we shall see the commercial use of atomic energy. Clearly, the demand for mechanical appliances in home, office, farm and factory is likely to experience a long upward trend. I should guess incidentally, that the application of labor saving equipment to the house is the least advanced; household equipment in the aggregate is perhaps as far along as the automobile in about 1912. Consequently, it may be that this field will see the most spectacular advances. Another field subject to great upward demand is technical services, including publishing; very great expansion is likely to come in personnel management and the application of psychology so as to use most efficiently that costliest of items, human labor. Mass services likewise probably will be subject of markedly expanding demand: laundries, packaged prepared foods and public restaurants, for example, as household work is increasingly

(Continued on page 26)

CHART VII

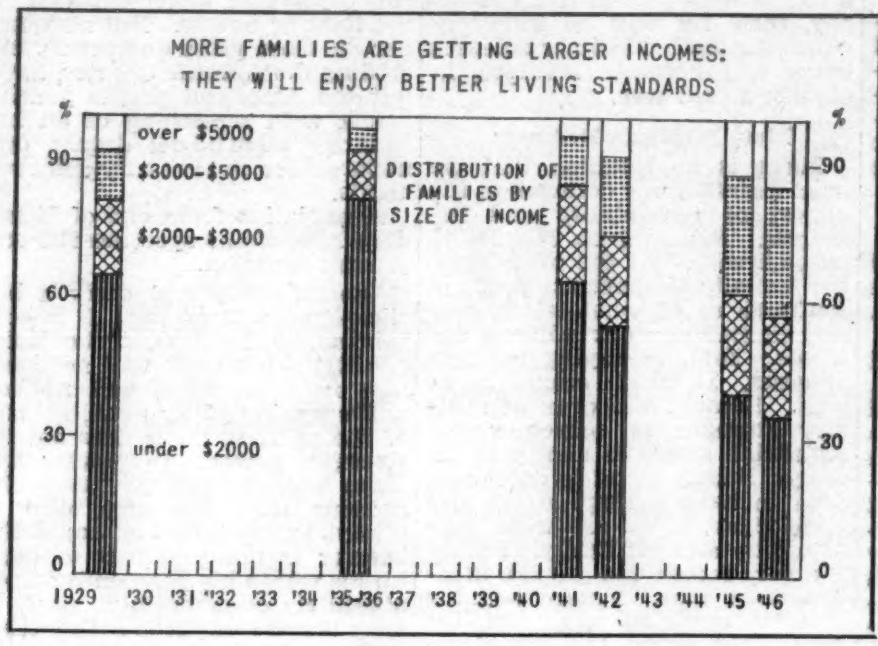


CHART VIII

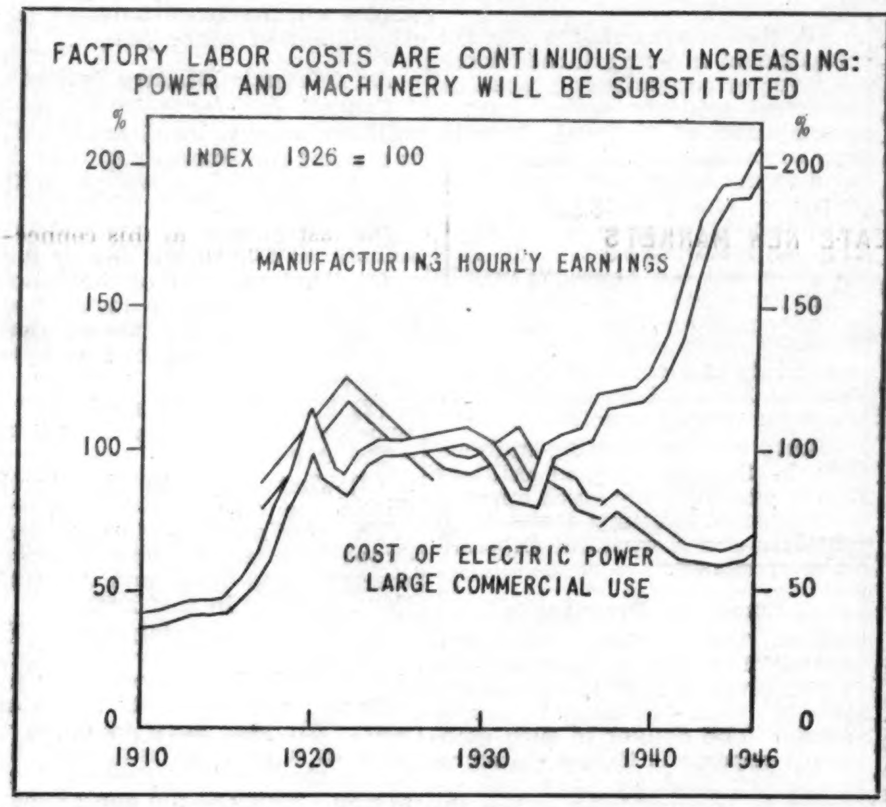
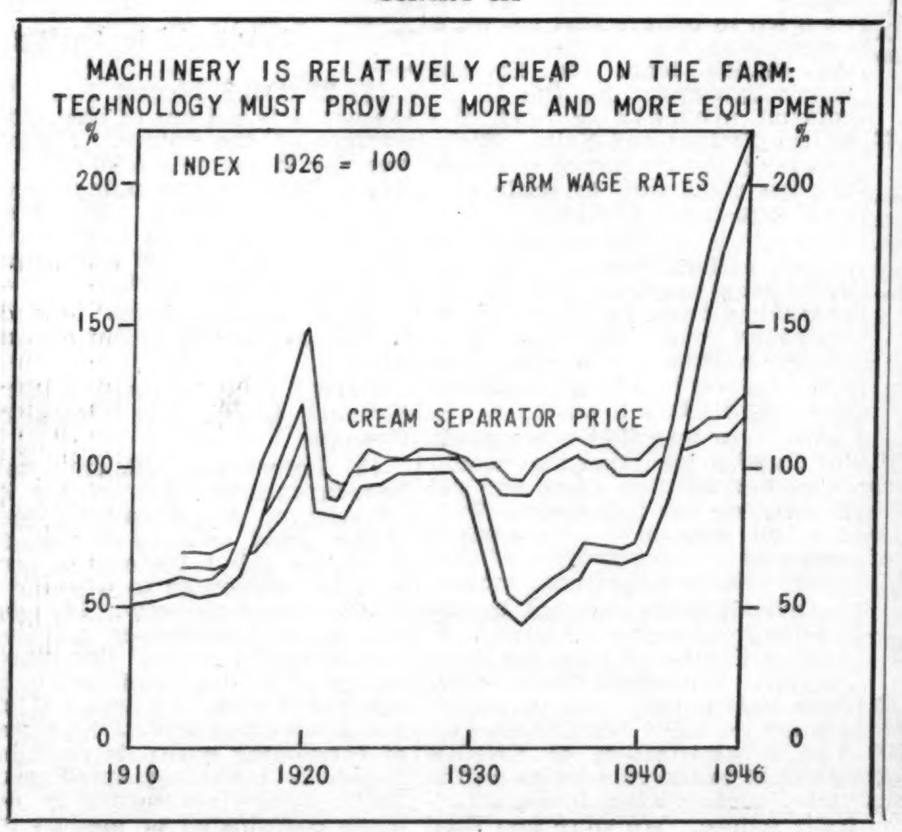


CHART IX



Long-Term Trends in Industry

(Continued from page 25)

moved out of the house and subjected to mass production.

Finally, and of especial interest to some of you, I submit that this situation means a long-term upward trend in financing, and particularly instalment finance and investment banking. This country is already very short of equipment as the studies of Dr. Sumner Slichter of Harvard show so conclusively, and the condition I have here outlined should increase the demand for equipment even further. A very large amount of financing indeed will be required to make up the already existing shortage and to meet the enlarged demand for equipment now that it is so relatively cheap.

A Generally Expanding Economy

From the large number of businesses which I have suggested are likely to be stimulated over a long period by the five factors, you may draw the inference that the forces are so great as to expand the entire economy. And I think that the inference is true. This country does have the promise of enormous expansion over the years, though the expansion will presumably be subject to the interruptions of business cycles. But even if we are to have general expansion, investment results should be best when funds are concentrated in those lines which have the best long-term trends.

Cautions

But even if we conclude that we are apt to have an expanding economy, there are still items for very marked caution for the investor. They are implicit in the five long-term trends here outlined.

First, obsolescence will be very high under the conditions indicated, higher, probably, than at any time in the past. And obsolescence is apt to be especially rapid in housing, and in the older parts of our American cities, all of which are so ill designed for modern conditions.

Second, business overhead is likely to tend to rise. Pensions, for one thing, seem certain to become far more general, and much more expensive, with increasing longevity. Labor costs and technical services are likely to expand.

Third, competition will be very intense. This is healthy for the economy as a whole, but is likely to be hard on some concerns and even industries. Those industries which have high labor costs and are able to find little possibility for substaitution of mechanical labor may be especially hard hit.

Fourth, those businesses which provide pensions and annuities may find their financial positions uncomfortable as they have to pay more as longevity increases. This applies equally to self-insurers as well as insurance companies, and may be especially marked among the self-insurers who, because it isn't their full time business, may be less attentive to the problem. And the higher the proportion of women in the clientele, the harsher the problem may be.

Fifth, an expanding economy will use up natural resources faster, and bring us to exhaustion of specific items sooner than calculations based on prewar rates indicate. Businesses directly or indirectly dependent on specific natural resources should be watched very closely.

General Conclusions

In the beginning I suggested that two general conclusions would flow from this analysis. They are as follows:

First: Long-term investment should search especially for those concerns which have alert and aggressive managements, which have and listen to good research units in both economic and technical fields, and which are not sluggish about recognizing depreciation and obsolescence. Probably those are the only qualities which have ever made successful companies, and I conclude that in the rapidly changing conditions which seem to lie ahead, they are the only ones which can do so.

Second: All the five trends discussed and illustrated presuppose peace, the absence of both hot and cold wars. For if we are to have war, marriages will be deferred or prevented, births will be deferred or prevented, the trend toward greater longevity will be threatened, incomes will be reduced by the weight of taxation, and technological progress will be monopolized by Mars. Indeed the ability of our monetary system itself to survive another war is dubious—assuming that we were to survive and to need a monetary system. Therefore, I conclude that security analysts, both as individuals and as a profession, are profoundly interested in the establishment and maintenance of peaceful conditions in the world. The same must be true of the investors for whom you work.

CHART X

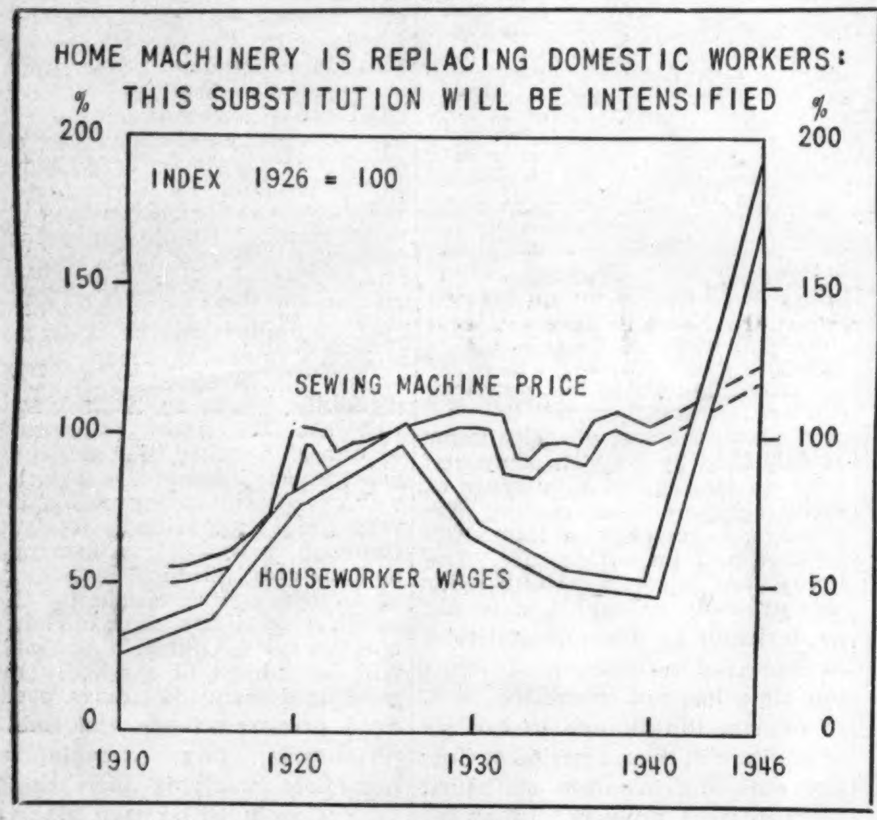
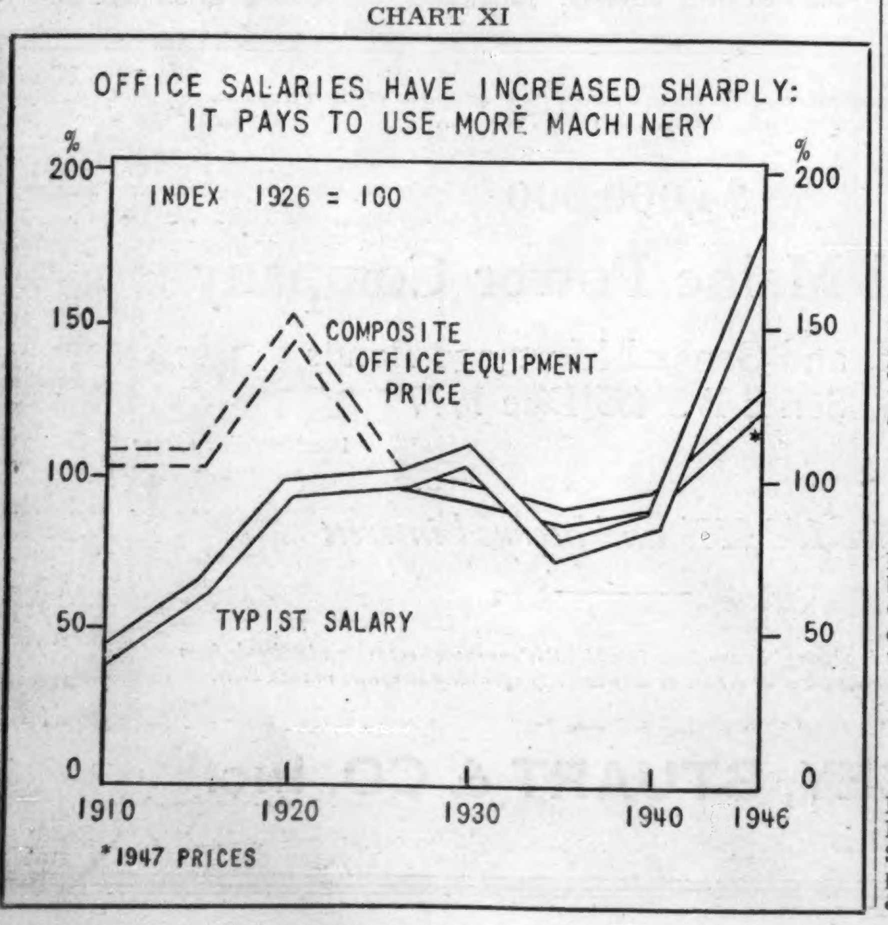


CHART XI



A. Kahle & Co. in Clayton

CLAYTON, MO.—A. Kahle and Co. is engaging in a securities business from offices at 52 South Central Avenue. Officers are A. Kahle, President; Janet M. Kahle, Secretary; and J. T. Pettus, Jr., Vice-President and Treasurer. A. M. Turner, formerly with Edw. D. Dail & Co. of St. Louis, is also associated with the firm.—

Joins Paine, Webber Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Henry C. Kimbrough has become affiliated with Paine, Webber, Jackson & Curtis, 626 South Spring Street. Mr. Kimbrough was previously with E. F. Hutton & Co. and J. A. Hogle & Co.

Dyer in Denver

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO.—Frederick W. Dyer is engaging in a securities business from offices at 1835 Champa Street. In the past he did business in Denver as head of the Denver Bond & Share Co.

Joins F. I. du Pont Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — William B. Downes has become affiliated with Francis I. du Pont & Co., 200 South La Salle Street. He was previously with Graham, Parsons & Co.

Our National Security

(Continued from first page)

conference seem to be following the customary pattern.

Of course, national security involves a sound national economy. That means a reversal of the unsound fiscal policies we have been following. But I propose to discuss specifically today the questions involved in military preparedness. Marshall Plan or no Marshall Plan we have got to gird our loins forthwith.

The little guys are in a heck of a fix. But bad as their fix is today, their fix will be infinitely worse if America lets her defenses down and becomes involved in another world war.

Must Maintain Defenses

There is no question that we must maintain our defenses to the utmost of our ability and resources. It would be suicidal to do otherwise. At the same time, the equally important problem confronts us of what is the best way to maintain our military defenses. And, in saying military defenses, I mean economic as well. Because the crux of military strength is economic and industrial strength and political unity. It isn't going to do us any good to have a large Army and great Navy, if we are weak economically and politically. France is a very recent and graphic illustration of that. France had the greatest standing army in the world, but when the showdown came in 1940, she lasted less than two months!

All the power of government propaganda is being turned loose in favor of compulsory peacetime universal military training as a prerequisite of national strength and security. Now, I do not intend to say today that compulsory military training may not be necessary—provided it is done through the National Guard. But I do say that the American people should not make up their mind emotionally on this question of military preparedness, and that we should also consider other factors of National Security before reaching a final conclusion.

There are outstanding authorities in the professional military group who are very much opposed to universal military training, as obsolete and a wasteful expenditure of money.

Emotional Propaganda

Both the Marshall Plan and universal military training are being presented to the American people with emotional propaganda. The danger in such emotional appeals is that it causes us to believe that we have the answers to our problems—when the question is decided—just as we were led to believe that we were approaching the millenium with the British loan, the Bretton Woods agreement for the International monetary fund, the United Nations and Yalta. Right or wrong, the emotional appeal is not the right way to settle any vital long-range problems.

Just look at the record for a minute of how repeatedly wrong government-inspired mass propaganda has been in recent years, beginning with the New Deal theory in 1933 that America was a failure and had to be revamped and have its face lifted.

We were told that if we made the English loan that that would carry her for five years and get England on her feet again. Now, it is all gone in a little over a year and the government of that country is back for more money.

Anybody who objected to the International monetary bank created at Bretton Woods was hysterically denounced as a dirty little isolationist. Yet, that bank has not done the job promised us. The Administration of UNRRA was sold to the country as a glittering success when it was a fantastic failure. We were told that the United Nations was the answer to a peaceful world and that the only reason we got into World War II was that we did not have the League of Nations. The ineffectuality of the United Nations in major disputes can no longer be concealed from the American people.

We were even told by many sources that we had to get into the last war because our security depended on Great Britain. How ridiculous that statement was in the light of events. But no wonder all those gross deceptions, including the Atlantic Charter, have left the American people punch-drunk with something of an inferiority complex despite our unparalleled military achievements.

A quotation from one of Theodore Roosevelt's speeches fits our present situation.

"Speak softly and carry a big stick—you will go far. If a man continually blusters, if he lacks civility, a big stick will not save him from troubles; and neither will speaking softly avail, if back of the softness there does not lie strength, power. In private life there are few things more obnoxious than the man who is always loudly boasting; and if the boaster is not prepared to back up his words his position becomes absolutely contemptible. So it is with the nation. It is both foolish and undignified to indulge in undue self-glorifications, and, above all, in loose-tongued denunciation of other peoples."

An Adequate Military System

I don't pretend to pose as a military expert, but I have made it a point for some time to study the question of a well-rounded and adequate military system.

Here are some of the conclusions I have come to:

(1) That any war of the future will move incredibly faster than the last war. If the last war was a "blitz"—the next one will be supersonic.

(2) That we have no longer a two-ocean front, but a third front —the Arctic Circle.

(3) That bases in the Arctic Circle are of prime importance. Also, continued and consistent expeditions testing our equipment, material and men under conditions existing in that area.

(4) That maintaining an efficient and constantly improving Air Force is imperative. Any future war will certainly be an air war. All you have to do is to look at a new air map and the whole story is right there in front of you. Topeka—the approximate geographic center of the United States—is closer by air route to Moscow that it is to Sanitago, Chile.

(5) That the biggest Navy in the world is not out of step with warfare of the future. I don't mean by that simply a lot of massive battleships and piling up of deep-sea armament. We need plenty of floating air bases—carriers—submarines and lighter escort and consort vessels.

(6) A regular Army four or five times the size of our prewar Army.

(7) A bigger and more efficient National Guard and Organized Reserves.

(8) Proper and efficient intelligence facilities are of crucial importance. We are now spending a great deal of money on Intelligence but there is a very serious question as to whether it is being spent properly. We have too many intelligence agencies squabbling among themselves to be top dog and to build up their own empires. CIG, which was supposed to be a sort of correlating outfit, is now engaged in collecting Intelligence itself. Our Intelligence is not being coordinated or meshed to-

gether by one alert chief such as we must have.

(9) That most important of all —we stay ahead of the procession in unclear physics and strengthen our research, particularly basic research. Very little is being said about bacteriological and other scientific developments in that field. That is just as terrible and as fearful as atomic weapons. In fact, we could have superiority in the atomic field and be destroyed by bacteriological warfare. The Russians probably have as much in that field as we have.

The Army says it wants a trained and disciplined population to meet any sudden attack. But a *trained and disciplined population has always proven, in the end, to be the destruction of any republic.*

Camp Training Not Beneficial

Neither am I impressed with the argument that the Army camp training, no matter how beneficial, is necessary for a boy because of mounting adolescent delinquency.

The reason for adolescent delinquency is lack of parental responsibility. We have too many baby sitters in this country and not enough parents who stay on the greatest job of all, and that is making good homes. We already have too many parents who shove off on the schools and churches the job of raising their youngster. And, I think it is a fallacious argument that we must have still a third agency—the Army—to help raise our youth.

Don't misunderstand me. I believe that military training serves to inculcate a valuable sense of personal obligation to the nation. That is something to be desired in a political system that has been too prone to emphasize the "take" and not the "give" on the part of its citizens.

The main question in my mind is whether national universal military training will do the job needed to be done under modern conditions of warfare. As I have said, I fear that we are not considering other phases of military preparedness of even greater importance. We might come nearer to meeting our problems by seeing that more youths entered the fields of science and research. We should be concentrating our military preparations on air power and scientific developments.

What a nation needs now to keep itself strong militarily is great technical resources—scientific resources and developments—air power—radar—remote control weapons and devices — atomic energy—bacteriological familiarity.

Keeping Manpower at Community Level

I believe it is necessary to have a reservoir of manpower trained to an extent to meet sudden attack. I favor keeping it at the community level through the National Guard and Organized Reserves. At least every possibility should be exhausted for keeping it at that local level before we embark upon the uncertain long-run course of universal military conscription.

There is no question in my mind but that we must take some steps to increase the National Security. But peacetime conscription is a whale of a change for us to adopt without the most careful consideration. It is a grave national decision. To many nations it has led to disaster and not to security.

The National Guard has always been the poor relation in regular Army circles. It has never received the credit due it for its work in our last two world wars. It has always had to take the leavings in any military preparedness program. Yet it is profoundly an American institution. The regular Army does a lot of bleating about the National Guard, but has heretofore done little to help build it up. However, it is now supporting a provision in the Universal Military Training Bill whereby a boy may, after six months' training in the Army, complete his service period in the National Guard. Of course, if the Guard is to be efficient it has to have vast appropriations for new armories and modern equipment. I believe, that with proper support and backing by the Congress, the National Guard could be made a sound and effective and very American alternative to Universal Military Conscription by the regular Army.

The National Guard has always heretofore shown its ability to contribute a sizable military force in the event of war. There is no reason to believe it can't do better if properly supported by the people.

It is still too early to say that mass armies will not be employed again, but the important thing is to have some reservoir of manpower trained to an extent that a sudden attack will not bring complete disaster. I believe that the bulk of the training should be done within the framework of the National Guard. Those who wish to continue on in the regular branches could do so on a voluntary basis—the remainder, and by far the greater number, then to continue their intensive training in the Guard. Then they would pass on into reserve units and be available for active duty, upon call in national emergency, for approximately five years longer. That would be about the limit of really effective preparation of the individual soldier.

Preparedness Most Elemental Question

In any event, this issue of national preparedness is the most elemental question confronting us today. The next Congress should decide it one way or the other. In light of world conditions we can no longer let the matter of national security drift.

Nor will it do us any good to have guns, ships, airplanes and bombs if we are bled white at home by an extravagant, free spending national administration. A sound fiscal policy is the essence of national defense, and one of the ways we will stop these soaring prices is to cut our wasteful and extravagant national expenditures and apply the savings on our national debt.

For instance, before World War Two there was one army civilian employee to four soldiers. At the peak of this war there was one army civilian employee to six soldiers. The budget for 1948 plans for one army civilian employee to each two soldiers.

Today there is more or less undeclared war going on between Russia, Western civilization in general, and the U. S. A. in particular. Russian agents are actively and determinedly attacking America at home and all over the world. So far the battles are being waged on economic and political fronts, although some minor combat skirmishing has sporadically occurred since Yalta. The French and Italian labor troubles are a part of the Communist storm breaking on this harassed world. A more or less undeclared war went on between Britain and Russia for 300 years. I don't think it will go on that long between Russia and the U. S. A. Things move faster today than they did in the 17th and 18th centuries.

There are two essential differences that ought to be borne in mind between the undeclared war going on today on the part of Russia with the United States, and the 300 hundred years of more or less undeclared war between Russia and Great Britain.

(1) The background of the trouble between Russia and Great Britain started with Britain's seizure of India—in what Russia considered to be her sphere of influence. Whereas we handed Russia, on a platter made of American money and blood, vast territories she has been seeking for centuries.

(2) The Czars had no fifth column in Great Britain. Today the Russian Soviet has an active, disloyal and traitorous fifth column composed of Americans who are taking their orders directly from Moscow.

A Communist "Fifth Column"

Can you imagine Eugene Dennis and W. Z. Foster, who are Secretary and Chairman of the American Communist Party living in Russia and sabotaging the government of that country as they are the U. S. A.? They might live a short time. But not very long.

Can you imagine Henry Wallace as a Russian making speeches in Russia—siding with America as against Russia—and living very long?

I do believe we have to face the fact that for some years we will be teetering on the abyss of another war, and we have to prepare ourselves accordingly. The best way to do it deserves the most thoughtful and thorough attention of every American citizen.

The destruction of Germany shifted the center of European gravity eastward. The destruction of Europe and Japan shifted the center of the world's gravity westward. The center of the world's gravity today is the U. S. A.

We must resolutely and wisely rally all the forces of western civilization. That can best be done as investing partners by requiring government policies that will increase production.

Above all, the American people must not get the idea that the Marshall Plan means a peaceful world. Rightly handled, it can be a contribution towards restoring order and stability in the world. A stable world contributes towards a peaceful world. But we don't even have a stable Marshall Plan. The President's Committee recommends one figure, Secretary Marshall a much higher one.

The greatest debate since the Lincoln-Douglas debate is going on today in the American Congress. That debate, which will cover not only our position in the world, but our domestic policies as well will bring before the American public, particularly in the campaign of 1948, the issue of how America is meeting this undeclared war by Russia. The debate may not fully develop all the measures necessary. But increasingly the real world situation will become known to the American people.

We seek neither satellite countries nor reparations. We seek only a prosperous and peaceful world.

The time is here when we must adequately and intelligently organize our own forces for our own security. How we do it demands the thorough consideration of every patriotic American citizen.

Takes Exception to Barbour's Concept of Dow Theory

(Continued from page 4)

Mr. Barbour—are you trying to confuse the issues by making a Jeffersonian political speech, or do you want anyone to take seriously the identical types of arguments used by the Socialists and Communists to defend their own favorite theories?

Mr. Barbour admits that there have been several times during the past year when he thought that the action of the market was bullish, but that he did not recommend the purchase of any stocks. Isn't this in line with the work of so many letter writers, who are always able to quote previous letters to the effect that they were bullish, if the market subsequently advances, and to point to the fact that they did not buy any stocks at such times, if the market subsequently declines? No wonder Mr. Barbour considers the Cowles analysis of 255 Dow Theory editorials as unfair!

To my way of thinking, the most important criticism of the Dow Theory, (and one which I believe Mr. May shares, but which Mr. Barbour does not try to answer), is that it is definitely anti-social. According to my own understanding of the Theory, (and I have been in a position to study both the Theory and the mental processes of several of its leading exponents during the past 12 years), it usually—or I might say almost always —calls for buying stocks *after* a low point seems to have been passed, and of selling stocks *after* it appears that a cyclical peak has been passed. This means the use of investment funds to help exaggerate the cycle, by adding to the demand for stocks once they have started up, and adding to the supply of stocks after they have started down. *In my humble opinion, any concerted action that helps to exaggerate the cycle, helps to undermine confidence in our economic system.* Market students who think more of the future of their country than of the chance to make the last possible dollar by basing their investment programs on a follow-the-crowd-but-try-to-get-there-first theory, should concentrate on trying to anticipate cyclical peaks and troughs. They should encourage their clients to buy stocks on a scale, once prices are well below intrinsic values, and to subsequently sell stocks and help satisfy the abnormal demand for equities which usually develops after a series of reconfirmations of a bull market under the Dow Theory. Such a procedure requires a little more work, and a great deal more patience, than a policy of following the Dow Theory, but I am convinced that it is a more profitable policy for the individual, as well as being a sounder policy for the country.

ANTHONY GAUBIS

Dec. 7, 1947
37 Wall Street
New York 5, N. Y.

Production, Not Controls, Will Curb Inflation

(Continued fro mpage 13)

creased in the six months period from 8.2 to 8.4. The Third District, of which South Jersey is a part, is the third highest. It increased from 8.1 to 8.3.

The world is still in somewhat of a turmoil. The Marshall Plan of European relief at the moment seems to be one of our most pressing problems. Its necessity seems to be conceded by nearly everyone. Opinions as to the extent relief is necessary and methods of administering it properly seem to be many. Of one thing we are all certain, the cost will have a direct bearing on our tax problems for some years.

Tax Relief Needed

Tax relief is badly needed—both corporate and individual. New capital is constantly needed in a growing country such as ours and investors are usually those who have been able to save. The present rate of taxation doesn't permit much saving and our source of new capital is rapidly disappearing.

During the last few months we have witnessed a very material change in the yields from investment securities. ⅜% treasury bills have disappeared and the new yields are now about .94%. 12-month ⅞% certificates of indebtedness are being replaced with 13-months certificates bearing 1⅛% interest.

The yields on intermediate and long-term government securities and corporate issues have increased substantially. The spread between the yields of long-term governments and triple "A" corporate issues has increased to about four-tenths of 1%. To the bank having funds available for investment this change is a welcome one. For the bank having heavy investments in long-term securities the change is not so desirable. The market drop in some of the long-term corporate and municipal issues has been the equivalent of several years' interest. Fortunately not many banks have very large investments in long-term securities, but the changes that have taken place indicate quite clearly the dangers of too many long-term securities even though they are of the highest quality.

GI Mortgage Loans

There has been a great deal of publicity given by the Veterans Administration about many bankers refusing to grant 100% GI mortgage loans. In some sections of our state the cost of new homes being sold to veterans is so high and the ability of many veterans to pay the carrying charges is so questionable banks are certainly justified in refusing to lend 100% of the cost. Many 100% GI mortgage loans are excellent risks and are being granted by many banks. This is particularly so in some of the rural sections where costs are not so high and building codes are less restrictive. The experience of all bankers with whom I have discussed GI mortgage loans has been nearly perfect. I think bankers who have not yet participated in the GI mortgage financing have been missing an opportunity to supplement their bank's earnings and have not been meeting the financing needs of their communities as perhaps they should. No banker should help any GI purchase a home at an excessively inflated price and beyond his ability to pay. Each application should be analyzed entirely on its merit.

New Credit Controls

Since President Truman's address before the special session of Congress it has been quite evident attempts will be made to impose new consumer credit and other credit controls. Should the Federal Reserve Board be granted powers to increase bank reserves and should such powers be exercised the present earning problems of many banks will be even greater ones. Banks not carrying excess reserves would be required to liquidate earning assets, further decreasing gross and net income. Continued liquidation of investment assets would drop market values still further.

The American Bankers Association has already registered its objection to any new credit controls. Should new credit controls be imposed, let us hope they will be for a limited period because no regulatory body ever voluntarily relinquishes powers once given it.

With Harry W. Myers

(Special to THE FINANCIAL CHRONICLE)

RALEIGH, N. C.—Paul O. Latham has become associated with Harry W. Myers & Co., Odd Fellow Building. Mr. Latham was formerly with First Securities Corp. of Durham and prior thereto with Geo. I. Griffin.

With Sweeney Cartwright

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, OHIO—Howard A. Zollinger has joined the staff of Sweney, Cartwright & Co., Huntington Bank Building.

Savings Bonds Not a Detriment to Savings Institutions

(Continued from first page)

hand, and the mere mechanics of its operation, on the other. When these objectives, and the over-all picture, are clearly seen, it becomes crystal-clear why it is to the advantage, not to the detriment of the savings banks to cooperate. It also indicates why these institutions have entered the program wholeheartedly, rather than under any feeling of compulsion or coercion.

For example, a savings bank in one of our largest cities up to Sept. 30 of this year had issued 487,517 Savings Bonds since 1941, for purchase prices aggregating $58,613,396.92 and its records show that 48%, or more than $28,610,000 of this sum, was withdrawn from its savings accounts to purchase bonds. It is currently issuing 12% of the Series E bonds sold in the city and sells, in wholesale and retail lots, about half of the U. S. Savings Stamps. Further, it acts as issuing agent, of course without charge, for many small firms operating Payroll Savings Plans which do not have the facilities to issue bonds.

Savings Banks Not Unconsciously Sacrificing Themselves

I am sure this savings bank does not sacrifice anything by doing these things, nor is there anything "unconscious" about it. Its officers, I know, consider the time, trouble and money not only well spent but well invested. They believe Savings Bond Service creates good will more easily than does any other form of public relations. They know it brings many people into the banking rooms and makes them aware that the bank is working not only for the good of its depositors but for the welfare of the 143 million Americans who own the U. S. Treasury and share the responsibility of managing our huge national debt. They consider their attitude more realistic than altruistic.

In New York State, the records show, 26% of the E bonds currently sold are issued by savings banks.

In my opinion, private savings institutions, instead of following the professor's advice to "abandon Savings Bond issues" should make sure they are doing all they can to further their sale.

Commercial banks with very few exceptions are backing the Treasury's efforts to keep the debt spread widely by promoting and selling Savings Bonds even when this takes money out of their demand deposit accounts and even though Savings Bond surplus from national sales in excess of redemptions is used to retire bank-held government obligations which pay interest to banks. They are no more altruistic in, or unconscious of what they are doing, than is the savings bank cited.

We are aware that some savings institutions that did their part patriotically in the war savings program have dropped it in peacetime, and that others are giving it only lip service. We can only conclude that the reluctant ones are not aware of the vital importance of Savings Bond sales in managing the national debt for the good of the national economy and for their own institutions' welfare.

No Imposition of Deflation

If savings institutions are "letting government impose debt reduction and deflation upon them in the name of thrift and patriotism" we can only wish that some of this deflation were apparent in the prices their depositors have to pay for the necessities of life which come before savings. The net reduction of more than $21 billion in the debt and the retirement of some $24 billion of obligations which were held by commercial banks has certainly been anti-inflationary in effect; it has kept inflation from being far worse than it is. The only criticism that could be logically levelled against the savings bond's part in this is that it could have been greater if more people had made more effort to help the Treasury sell more savings bonds.

The savings bond program has made small capitalists and bondholders of millions of Americans since 1941 and aims to make capitalists of more of them. It is the best anti-totalitarian and anti-communistic insurance available. No country has ever surrendered to fascism or communism unless it had a majority of dispossessed and despairing people to whom a "leave everything to Adolf" (or Benito or Joe) doctrine could be peddled as the one panacea for all economic and political ills. You do not create proletarian despair and unrest by creating more bondholders.

This democracy and our economic system can be overthrown only if it is first weakened by drastic inflation and depression. Another crash like that of 1929 in this country would be the sweetest music Moscow and its satellites ever heard. The Russian radio is already broadcasting to whoever will listen a running report of unemployment, depression, hunger and despair gripping the United States today, complete with harrowing details. That lie is being spread because it is the highest hope—and I believe about the only hope—of the totalitarians of either the left or right wings that it will come true.

A savings institution, bank or any other medium that persuades an American to put away another dollar in a savings account, into building and loan shares, into life insurance, into U. S. Savings Bonds or into any sound investment is helping just that much to check the spread of communism and state socialism. Those doctrines can spread only if the United States fails to demonstrate that capitalism can continue to provide the most benefits to the most people and that for all its shortcomings, individual enterprise is better for the average man and his family than leaving everything to the "strong men" who are supposed to know what is best for everybody.

One set of "strong men" have died by cowardly suicide or on the gallows; one dictator came to a ghastly end at the hands of his own people. The people of Western Europe and the rest of the world, in my opinion, are not going to submit to another alien dictatorship unless there is nowhere to turn for help; no friendly nation to supply the means of working out their own salvation.

I believe so firmly in the practical superiority of our system that my only concern is that we may not realize that it will not function smoothly unless we keep it in repair and constantly try to improve it. If we do, I am completely confident that no other form of government or economy can supplant it—at least none that has yet appeared on this earth.

The Savings Bond drives of 1941-45 sold to millions of Americans, notably through the Payroll Savings Plan, the first security of any kind they had ever owned. Probably 60 million of the 80-odd million E Bond buyers were beginners at bond holding. Millions of them had never before saved any money regularly, much less invested it. They got their first lesson in the solid satisfaction and concrete benefits that thrift brings to the provident.

Widespread Savings Bond Holdings

The Treasury Department, through its Defense and War Savings program, with the help of six million volunteers in the drives and of $400,000,000 worth of donated and sponsored advertising in all media in 1941-45, sold thrift and saving to literally every American old enough to comprehend them. The savings institutions of the nation could not in a hundred years equal this advertising of the things they sell. Nor could there have been a better antidote for the propaganda which maintained that our economic system would work only if every one, including government, spent with a free hand and that Uncle Sam would pick up the check whenever his nieces and nephews went broke. The right course lies between prodigality and parsimony; it requires saving as much as possible in the fat years to keep things going in the lean.

Most people have to be persuaded to save; few need to be urged to spend. I see no less need for industry, business, labor organizations, press and radio, banks and savings institutions which benefit from it to support the Treasury's Savings Bonds program in peacetime than there was in wartime. Thrift and saving have had six years of intensive publicity and advertising through this program and it would be folly not to continue it.

Certainly the last to advocate its abandonment or to refuse to cooperate with it should be the private institutions which thrive upon wider public acceptance of the benefits of thrift and regular saving which this program, at small expense to the taxpayer (currently 41 cents per $1,000 in sales), continues to build up with the help in peacetime of about a million volunteers and donated and sponsored advertising and air time that private savings organizations could not begin to buy. Not the least of the forces for thrift that the Treasury enlists is the help of the schools. The School Savings program begins in the first grade, is woven in with the teaching of arithmetic, civics and budgeting. During the 1946-47 school year more than 80,000,000 U. S. Savings Stamps were sold.

Savings Bonds Not Competitive

In my opinion, it is short-sighted of any bank, life insurance or savings institution to consider the Savings Bond program as competitive. The article cited asserts that if Savings Bond sales had been stopped after the war, the money put into them since then would have gone into private savings institutions, in large part. Some of it would have, of course, but that is a limited and dim view of the questions. *Bankers are as much interested in preserving the value of the dollar as they are in accumulating deposits.*

Net receipts from the sale of Savings Bonds in 1946-47—that is incoming cash from the sale of Series E, F, and G bonds in excess of outgoing cash for redemptions—have amounted to over $3 billion. The sale of new Savings Bonds since the Victory Loan has supplied the Treasury with $13 billion in cash to cover about $10.6 billion in maturities and redemptions of all Savings Bonds, which otherwise would have had to come out of the Treasury's cash balances.

It is generally admitted that, without the continuing campaign to sell Savings Bonds, supported by business and industrial firms operating Payroll Savings plans, the banks, the press, radio and periodicals, their advertisers and other volunteer aids, E Bond redemptions would have been greater than they have been in 1946-47. Every war loan drive showed clearly that intensive promotion not only persuaded people to buy more bonds but also convinced them that they should hold onto their bonds. If the outgo from the savings bond account had been no greater than it was and none had been sold, this would have left the Treasury at least $23.6 billion worse off for cash to pay off maturing marketable obligations.

Converting Bank Bond Holdings Into Savings Bonds

Although out of its cash surplus since March 1, 1946, the Treasury had retired a net of some $21 billion of maturing national debt, by shifting ownership it has been possible to retire $3 billion more than that from the banking system, most of it in short-terms. We all know that government obligations held by commercial banks are potentially inflationary, in that they can be sold to the Federal Reserve System to create additional reserves to cover customer loans in the ratio of 6½ to 1, on the average.

There would have been $13 billion less siphoned directly out of the money supply if Savings Bonds had not been sold and certainly a considerable part of that sum would have been spent in a 1946-47 market of scarce goods and rasing prices. Retiring $23 billion in bank-held debt certainly worked against over-expansion of bank credit money when we already had (and still have) too much money afloat in the economy. Over-abundant money due to war financing is the chief cause of our price inflation. If the Treasury had been able to retire even $10.6 billion less of bank-held debt, due to that much being taken out of the Savings Bond account while none was coming in, it is impossible to calculate, but easy to imagine, what would have been the effect on the inflationary trend.

Any banker or financially trained person can see that any program that keeps inflation from being any worse than it is helps to make every private investment of a savings institution—or any investor—safer in the end. Deflation does temporarily help savings institutions, banks, insurance companies and other market investors by bringing down the price and increasing the yield of marketable bonds in general, but that is not an unmixed blessing.

Dependence on Welfare of People

The welfare of all financial institutions depends in the end upon the general welfare of the people who patronize them. They want neither inflation nor severe deflation; they want steady business and a healthy economy. Theirs is a very special stake, therefore, in the proper management of the national debt, in which the savings bond program plays a vital part. It is not necessary to explain here why runaway inflation or severe depression would be ruinous to private savings institutions. I recognize no economic law that says we have to have either. If we work together to prevent them, we can prevent them. If we don't, we can't.

Selling more Savings Bonds than are redeemed or cashed upon maturity does not increase or decrease the national debt. It does help keep the securities spread, and to spread them more widely, percentagewise, as time goes on and the debt is reduced.

The surplus from Savings Bond sales is not used to increase government spending; Congress alone can authorize Federal expenditures and the ballot box is a check upon Congress. Savings Bond surplus is used to retire maturing debt obligations, as already stated, even though receipts go into the general fund.

Conclusion

The Savings Bond program has these additional benefits which private savings institutions cannot achieve independently of it:

(1) It puts debt securities directly into the hands of individuals.

(2) It enables the taxpayer to get back some of his tax money directly in interest (or accrual) on his Savings Bonds without diverting any part of it to an intermediary. Thus he is made happily aware that the $5 billion annual interest on the debt comes back into the people's pockets, directly or indirectly. He would feel far less happy if he thought he was taxed to "pay $5 billion interest to banks, corporations and the wealthy."

(3) The program prevents a recurrence of the mistake in World War I, when for lack of registered, non-marketable savings bonds, the debt securities soon concentrated in the portfolios of banks, corporations and investors who bought them up at market prices ranging down to the low 80's. This without a doubt fed the resentment toward "Wall Street" and banks and bankers during the 1930's which had many unfavorable results. Patriotic public service during and since World War II has been able to counteract this in large part, but in order to keep their present good repute, bankers and financial men will have to continue to deserve it. No savings banker would want to hear or read that the private savings organizations of the nation alone, among its financial institutions, were refusing to serve their depositors and the general welfare by selling and promoting the sale of Savings Bonds. There could never be enough Savings Bonds sold to cripple private savings institutions, for every form of savings has its advantages and disadvantages compared to the others, and there will always be room in the boat for all.

(4) The Savings Bond program creates in the bondholder-voter an awareness of his personal stake in government fiscal policy and economy. The Treasury's daily mail from Savings Bond holders proves that I am reliably informed. The more personal interest the average voter takes in the conduct of his government by his elected representatives, the safer are our democratic institutions and our citizen enterprise economy.

This nation of ours was brought into being by representatives of the 13 colonies who realized that they must all hang together or they would each hang separately. Translated into present terms, that is just as true of the leaders of today as it was of the founding fathers in 1776. If we work together as Americans to improve and strengthen our democracy and our economy—and they are interdependent—this great experiment cannot fail, and Americanism will remain the only political and economic "ism" that works for the welfare of mankind.

Business Man's Bookshelf

U. S. Naval Logistics in the Second World War—Duncan S. Ballantine—Princeton University Press, Princeton, N. J.—Cloth—$3.75.

More Housing at Less Cost—A Study of Factors Blocking Large Scale Production of Homes at Reasonable Cost and Remedies Recommended by the National Association of Manufacturers—National Association of Manufacturers, 14 West 49th Street, New York 20, N. Y.—Paper.

Inventory Pricing Under Present Conditions

(Continued from page 13)

ful presentation of the report of business progress known as the income statement. It is readily understandable that there can be but doubtful usefulness in any sequence of financial reports of a company that employs varying methods of inventory pricing from one period to another. There is little honest usefulness in financial reports that show a trail of inventory reserves running through the accounts in confusing charges and credits, so that no one but an expert or an insider can tell what the true business results are. There is limited usefulness in an income report which cannot be compared with a competitor because each company uses different methods of inventory pricing, or because one creates reserves and the other does not, or because the reserves charged against income by both companies are creations of management without any uniform standard of measurement. The company that is small may be able to ignore for a time the fact that the public—the investor, the consumer, the laborer, the taxpayer—is becoming greatly more conscious of income accounting. The company that is large knows that, as a matter of public relations alone, the time for increasing objectivity is already growing late, because it can be proved that business income reports are by and large greatly misunderstood and greatly distrusted.

Because of the methods by which accounting procedures have historically developed, and especially the fact that most of the refinements of accounting are recent developments of the competitive phases of the industrial revolution, it is not surprising that substantial areas of differences have grown up. When these differences have been sufficient to prevent comparisons between companies or lead to confusion in the interpretation in the reports of individual companies, it is not surprising either that there should develop severe criticism of published financial information and much suspicion of corporate financial statements.[2] In recent years these differences have provided a basis for attacks on business by those whose purposes are more devious. Nine years ago the American Institute of Accountants, the national organization of practising certified public accountants, undertook a major program directed toward the reduction of these differences. It created a major committee, called the committee on accounting procedure, to examine controversial questions in accounting and to recommend procedures to be followed, in the hope that the areas of differences would be reduced and published financial statements would thereby be made more useful. To date this committee has issued 31 bulletins, each of which has dealt with some problem that had proved troublesome or confusing. These statements carry only the weight of their own reasoning and the reputation of the members of the committee, but they appear to have made important gains in the direction of narrowing some of the variations in accounting procedures of the past. In the last year the committee has released two very important bulletins on the subject of inventory pricing. Bulletin 29 is entitled "Inventory Pricing" and Bulletin 31 is entitled "Inventory Reserves." They contain the first really authoritative expressions of the accounting profession on these subjects.

Bulletin No. 29—Inventory Prices

In the course of its development of this bulletin, the committee on accounting procedure made several surveys of inventory pricing practices. The number of divergencies in methods was almost legion. In fairness, it should be conceded that the variations in application were not much more extensive than the area of theoretical differences which had grown up among accounting writers through the years. The differences in pricing ranged from companies that excluded all manufacturing burden as an inventory cost (or excluded fixed charges from manufacturing burden), to those that included some or all of administrative and selling expenses as an inventory cost, or valued inventories at selling price. When copies of early drafts of the bulletin were submitted to organizations such as the National Association of Cost Accountants, the Controllers Institute, the state societies of certified public accountants and to accounting officers of representative manufacturing companies, the opinions were equally divergent. The final resulting bulletin contains some compromises of viewpoint and is clearly a single and perhaps very temporary step in the evolution of inventory pricing practices. Its worthiness lies in the fact that it authoritatively expresses the basic objective of inventory pricing, rules out some of the more extreme pricing practices, and effectively narrows the area of theoretical difference while at the same time permitting considerable latitude within the premise of objectivity in the determination of income.

The bulletin contains 10 basic propositions with an explanation of each. The first proposition, beyond defining the term "inventory," merely states that accounting for inventories is necessary for any business whose operation involves a stock of goods. The other statements are as follows:

Statement 2 affirms that the major objective in accounting for inventories is the proper determination of income through the process of matching appropriate costs against revenues.

Statement 3 adopts "cost" as the primary basis of accounting for inventories, and defines generally the meaning of the term.

Statement 4 approves the use of any one of several assumptions as to the flow of cost factors (such as "first-in, first-out," "average," and "last-in, first-out") but emphasizes that the method selected should be the one which, under the circumstances, most clearly reflects periodic income.

Statement 5 requires a departure from the cost basis of pricing an inventory when the usefulness of the goods is no longer as great as its cost, whether due to physical deterioration, obsolescence, change in price levels or other causes. It adopts the term "market" for the lower valuation to be applied and requires the difference to be recognized as a current loss.

Statement 6 defines the term "market" as used in the phrase "lower of cost or market," as being current replacement cost (by purchase or by reproduction, as the case may be), but makes certain exceptions to this definition.

Statement 7 approves the application of the rule of "cost or market whichever is lower" either directly to each item in the inventory or to the total of the inventory or to the total of each major category, depending upon which most clearly reflects periodic income.

Statement 8 calls for consistency in pricing methods and a disclosure in the financial statements of the methods used as well as a disclosure of the effect of any change in methods.

Statement 9 rules out the pricing of inventories above cost except in extreme cases such as those of precious metals having a fixed monetary value.

Statement 10 requires that accrued losses on firm, uncancelable and unprotected purchase commitments should be recognized in the accounts in the same way as are inventory losses.

This bulletin clearly leaves much to be desired and is certain to please no one completely. Already the committee is receiving suggestions for a future revision. Admittedly the permitted ranges of practice need greater narrowing. The most important single statement in the bulletin is perhaps the suggestion that in time uniform methods of pricing be devised within each of the principal industries. There can certainly be no disadvantage in such a procedure (other than the arguments that spring from rugged individualism) and there can be many advantages, the principal one of which would be the use of a common denominator and a common language for the benefit of the readers of financial statements.

In summary, the major accomplishments of the bulletin are these:

"(a) The emphasis on the objective of proper income determination, rather than that of valuation for purposes of the balance sheet.

"(b) The affirmation of the "cost or market" rule and the definition of that rule in terms of cost usefulness.

"(c) The requirement of recording accrued losses on uncancelable and unprotected commitments."

If the bulletin accomplishes merely a minor gain in its purpose of proper measurement of income, with the resulting achievement of greater comparability of business results, it will have proved to be a major document.

Bulletin 31—Inventory Reserves

This bulletin deals with the subject of reserves for future inventory declines, which may be defined as reserves for losses which have not occurred at the date of the balance sheet and are not in prospect on the realization of the inventory then on hand. In effect, this bulletin holds that the principles of Bulletin 29 are all-inclusive and that an inventory which is priced at the lower of cost or market as therein defined cannot be further reduced, for purposes of computing income, by a reserve for future losses. The exact language of the bulletin is as follows:

"The committee is therefore of the opinion that inventory reserves, such as those created:

"(a) for possible future inventory losses on inventories not on hand or contracted for, or

"(b) without regard to any specific loss reasonably related to the operations of the current period, or

"(c) for the purpose of reducing inventories other than to a basis which is in accordance with generally accepted accounting principles (Bulletin 29), are of such a nature that charges or credits relating to such reserves should not enter into the determination of net income and that they should not be used to relieve the income account of any year."

While the bulletin is brief, its conclusions are the result of long deliberation and thorough consideration of alternative and contrary viewpoints by the committee. It is recognized that some business managements have an honest difference of opinion from this conclusion. But the committee is of the conviction that in time its viewpoint will be clearly demonstrated to be sound.

The argument against the bulletin and in favor of inventory reserves is simple.[3] It is that all economic events have their reactions, that periods of rising prices create profits that will be offset by losses in periods of lowering prices, that future uncertainties should be met directly from the income realized during highly profitable periods, and (in some vague way) future losses should thus be charged against the profits from which they stem. This viewpoint was expressed by one of the dissenters to the bulletin in these words:

"Traditional accounting practices are clearly inadequate to cope with existing extraordinary price inflation and subsequent substantial deflation that appears inevitable based on past experience. Obviously reserve provisions made capriciously to equalize profits between years must be condemned. It seems equally plain, however, that accounting rules should not force business to report inventory profits as unqualifiedly realized in the face of conviction that such profits will never be realized. Neither should business be forced to adopt the involved last-in, first-out method as the only means of eliminating such profits. This extraordinary price situation requires sensible tolerance in making objective tests of business judgments exercised in good faith and a realistic consideration of substance rather than technical adherence to form."

The argument for the bulletin is not quite as easy to state, because it is more basic. It involves the direct question of the objectivity of income reporting, of the elimination of public distrust in accounting, and the even broader social responsibility of financial reports to tell a truthful and unconfusing story. The argument enters the area of the questionable validity of any type of reserve for something which has not happened in an accruable sense when it is applied against income for the purpose of producing a result different from that which actually occurred. Those who argue for inventory reserves, or for any other type of reserve to balance cyclic effects over a period of years, are arguing for artificial equalization of reported profits. They are confusing, honestly though it may be, problems of business finance, of dividend policy, of labor relations, and of all of the other involvements that spring from a showing of profit, to justify artificial understatement of that profit. A good many years ago a committee of the American Institute of Accountants, in correspondence with the New York Stock Exchange, stated the objective of income accounting as being "the best reflection, reasonably obtainable, of the earning capacity of the business **under the conditions existing during the year to which it relates**" (boldface added). Clearly, the use of inventory reserves violates that concept by reaching into the future.

As an alternative to the use of an inventory reserve, it is refreshing to consider the good sense of this paragraph from the annual report of one corporation for 1946:

"There is a possibility of future loss in the inventory should prices decline. The amount of such loss, if any, will depend, of course, on future conditions. No reserve for this contingency has been specifically provided in the financial statements because it is the opinion of the Board of Directors that the present surplus account is more than adequate protection for this contingency."

To some this bulletin may not be easy to accept in the first instance. To them it is fair to make one concession. Perhaps basic business concepts of profits are at fault and rapidly rising or falling price levels merely bring out the need for different ones. Perhaps we should in time develop a system of measuring business activity and business results in terms of index numbers. Perhaps we should abandon the idea of attempting to measure profit in a short fiscal period and should devise a system of income reporting on a basis of moving cycle periods. Possibly existing accounting procedures would be most effective for reporting if a plan for measuring profits in terms of constant units of value were developed and supplementary statements in terms of such a constant unit were adopted.

However, until some basic change in business measurement or some sound change in accounting procedure can be developed to meet these current difficulties, we must resist the adoption of procedures that have no basis for objective determination and no assurance of consistent application. Certainly the answer to this problem is not for each company to decide what its profits shall be, or what procedures shall be applied, without regard to the need for orderly and consistent practices. Business as a whole will suffer if there should be any widespread belief among users of financial statements that charges to income are based on the whim of management, are not in accordance with generally accepted accounting procedures, and cannot be tested for fairness within reasonable limits. The bulletin is a courageous document. Its sponsors hope that business managements will accept it as being in their best interests, in the sense that truthful objective income reporting is one of the surest ways of developing the public confidence that is necessary to preserve the highly valued economic system of which they are a part.

2 A recent public opinion survey conducted by Controllership Foundation, Inc. brought to light the startling impressions, among others, that 45% of the public believes that reported profits of corporations are deliberately understated, and that 59% of the public believe that it is difficult to understand a typical profit and loss statement. The survey report clearly showed that beliefs such as these lead to the further prevalent belief that business makes an exhorbitant amount of profit.

3 The bulletin and this discussion are directed only at inventory reserves created by charges to current income. There is, of course, no objection to an inventory reserve created from surplus and returned in whole to surplus when no longer considered necessary.

Paul J. Bax Joins Barclay Inv. Co.

(Special to The Financial Chronicle)

CHICAGO, ILL.—Paul Joseph Bax has become associated with

Paul J. Bax

the Barclay Investment Co., 39 South La Salle Street. Mr. Bax was formerly in the trading department of the Chicago office of Kidder, Peabody & Co. with which he was associated for a number of years.

Rollins Brown Opens

WAKEFIELD, N. H.—Rollins Brown will shortly engage in his own securities business from offices in Wakefield. He was formerly with E. A. Straw, Inc., of Manchester.

With Herrick Waddell

(Special to The Financial Chronicle)

DORCHESTER, NEB.—Carlisle B. Boyes has joined the staff of Herrick, Waddell & Company, 55 Liberty Street, New York City.

What Will They Buy?

(Continued from page 2)

estimates of probable demands for consumer goods in the next two to three years.

Procedure in Making Forecasts

This article attempts to supply fairly definite forecasts of consumers' purchases in 1948-49 at three assumed levels of total consumption expenditures. It is a digest of a comprehensive review and analysis, recently completed by my associates and myself, of consumption expenditures during the past 33 years.

Making realistic forecasts—or even trying to make them—is a tedious step-by-step procedure of weighing all the various factors to be taken into account. The explanation which follows omits many details in order to present as briefly as possible the line of reasoning which leads to our conclusions.

The forecasts here set forth are limited to eight broad classes of consumer goods. With this framework as a control and utilizing as guides the established ratios among sales of related goods, it is possible to work down to estimates for specific types of products. This is the safest and most sensible procedure, in our opinion, for sales forecasts which are likely to prove useful for business planning and for selection of securities.

A popular alternative consists of asking a sample of the population what they intend to buy. One example is the series of surveys of consumers' buying intentions sponsored by the Federal Reserve Board, indicating heavy demands for durable goods. The findings make cheerful reading. But they also lead one to suspect that few of the persons interviewed had in fact made a careful calculation of the amount of money they will have available to fulfill their desires.

The cold truth remains that a dollar contains only one hundred cents; and every cent paid out for one requirement has to be diverted from something else. Consumers' behavior, we submit, is a more reliable guide than consumers' wishful thoughts.

Within Limits Consumer Demands Are Predictable

To get a correct perspective on consumers' living habits and buying habits, it is best to look at their record through the past generation. Chart 2 is a diagram of the **percentages** of total consumers' purchases at retail values in each censal year from 1909 to 1929 and for each subsequent year through 1947. For convenience, the two periods of World War represented on this chart are set aside for separate treatment.

Please note first the middle section of the chart covering the two peacetime decades, 1921-1941. Recall that these were two decades of extreme fluctuations. From the depths of the 1921 slump the American economy moved up to the highest plateau of widespread prosperity any people had ever previously enjoyed. Then followed the four-year collapse, the worst in our history, from 1929 to 1933. Afterward we struggled through six years of painfully slow and checkered convalescence until the European War finally brought us to the closing years, 1940 and 1941, of renewed prosperity. One might naturally expect that people would allocate their spendings in quite different ways corresponding to the wide variations in their economic status.

Yet a glance at the chart will reveal an extraordinary degree of stability of allocations throughout the two decades. The percentage devoted to food and tobacco together was never less than 26% nor more than 28%. Most of the allocations show an almost equal degree of uniformity. Variations in consumers' incomes had surprisingly little influence on the way they allocated their expenditures.

The chart indicates an apparent exception in respect to liquor; but this signifies nothing more than inability to collect statistics from bootleggers during the prohibition era. Before World War I, alcoholic beverages got a little over 6% of the consumer's dollar; after the intermediate disturbances they came back in 1946 to their old 6% norm. Incidentally, this is twice as much as the average consumer spends on all social-cultural activities put together—that is, on education, serious reading, religion and social welfare.

The well established pattern of peacetime spending makes consumers' purchases — at any rate, their broad classes of purchases—at any given level of income predictable with a fair degree of reliability. This is a fact worth stressing, for it does not seem to be generally understood.

However, the statement does not mean literally that the prewar pattern will necessarily be closely duplicated in the next few years. Not only changed price relationships but also long-term trends in consumers' living and spending habits and the effects of innovations and continuing shortages of some products must be allowed for.

A New Pattern Is in the Making

Before leaving Chart 2, we should take time to observe to what extent prewar consumption patterns were altered during the two wartime periods. World War I introduced some very important changes. Compare the percentage allocations of consumption expenditures in 1909-1914, averaged, with the corresponding averages for the postwar years 1921-1929. Food and tobacco together went down 1.5% and housing (comprising rent, fuel and utilities) nearly 5%. On the other hand, transportation gained over 4% and household operation (including furnishings, appliances and other equipment) over 2%. These changes in the pattern signified, and in large part created, years of bitter depression in farming and, on the other side, years of rapid expansion in automobile manufacturing and allied industries.

Look now at what has happened in the World War II period. Food and tobacco plus liquor (which can be classed together now that reliable data are available) have shot up from 31.5% in 1941 to 39% in 1946; and clothing and personal care together from 14.3% to 17.2%. The chief offsetting declines have been in housing, down over 4%, in household operation, down 2%, and in transportation, down 3%.

These alterations are far from negligible. At the present rate of consumers' spendings every shift of 1/10th of 1% involves a loss of $160,000,000 for one class of products and a corresponding gain to another class. Shifts of this size are big enough to ruin some industries while they shower manna on others.

Following the precedent set by World War I, another new pattern, widely variant from that which prevailed in 1921-1941, is now in the making. The permanence of the pattern as it now exists depends on the strength of the new wants and living habits formed during the past five or six years.

Which Are the Growing Wants?

If we could measure accurately the relative strengths of people's desires for various kinds of economic goods, it would not be hard to foretell what they would buy at each level of the national income. Accuracy in this kind of measurement is unattainable with present crude statistical materials. However, a good deal of further information can be extracted from the data at hand.

The first step is to eliminate price fluctuations, so far as that can be done, by applying to each major class of consumption expenditures the most appropriate price index for that class—that is, the food price index to the food group, the clothing price index to the clothing group, and so on. To facilitate realistic comparisons we have taken the prices of June, 1947, as the base and have inflated the figures for preceding years up to the mid-1947 level. The effect is to show for each year the approximate amounts that would have been paid for each class of commodities and services if mid-1947 prices and price relationships had then been current. The recent upward sweep of prices has been so rapid that even 1946 expenditures have been raised about 14%—not to speak of earlier years. To allow for population changes the national totals are reduced to expenditures per capita. These are the figures graphed in Chart 3.

The first thing to strike the eye is the extraordinary rise in spendings per person for food, liquor and tobacco from the early thirties to date. Please take note that the rise here shown is **not** explainable by the upswing of food prices, which has been eliminated from this chart. Indeed, the normal effect of exceptionally high prices would be to cut down food consumption.

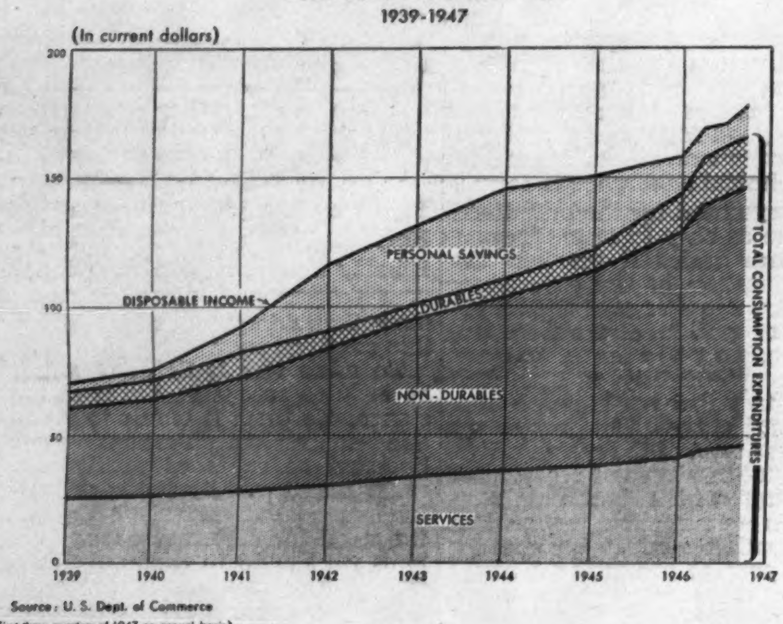
Next in rate of rise is clothing plus personal care. This differs from the rise in food and associated products, however, in that it started from a severe slump during the thirties. Even in 1941 expenditures per person were well below those in 1927-1929. Thereafter it moved up fast to its very high level of $200 a person in 1945-1946.

Housing climbed slowly but steadily from 1939 on. The three minor classes—(1) sickness and death expenses and insurance, (2) recreation, and (3) social-cultural activities—moved up more sharply, yet also gradually and with some setbacks, from their low point in the thirties. Spendings per person on recreation doubled; on sickness and associated items went up 40%; on social-cultural activities, 20%. Transportation and household operation, including equipment, advanced slowly until 1941 and were then cut down during the war.

Further light on relative strengths of desires in two comparable periods is supplied by Chart 4. The two periods represented in the chart—1921 to 1929 and 1933 to 1940—start from approximately equal bases of per capita expenditures and show approximately equal expansion of total expenditures—32% from 1921 to 1929 and 31% from 1933 to 1940. The chart presents a fairly trustworthy comparison therefore, of actual demands in the twenties and in the thirties.

Of chief interest are the notable gains in the thirties of demands for clothing, household operation and the three minor classes at the

CHART I
CONSUMERS EXPENDITURES
1939-1947



Source: U. S. Dept. of Commerce
(First three quarters of 1947 on annual basis)

CHART II
PERCENTAGES OF CONSUMERS' PURCHASES
1909-1946

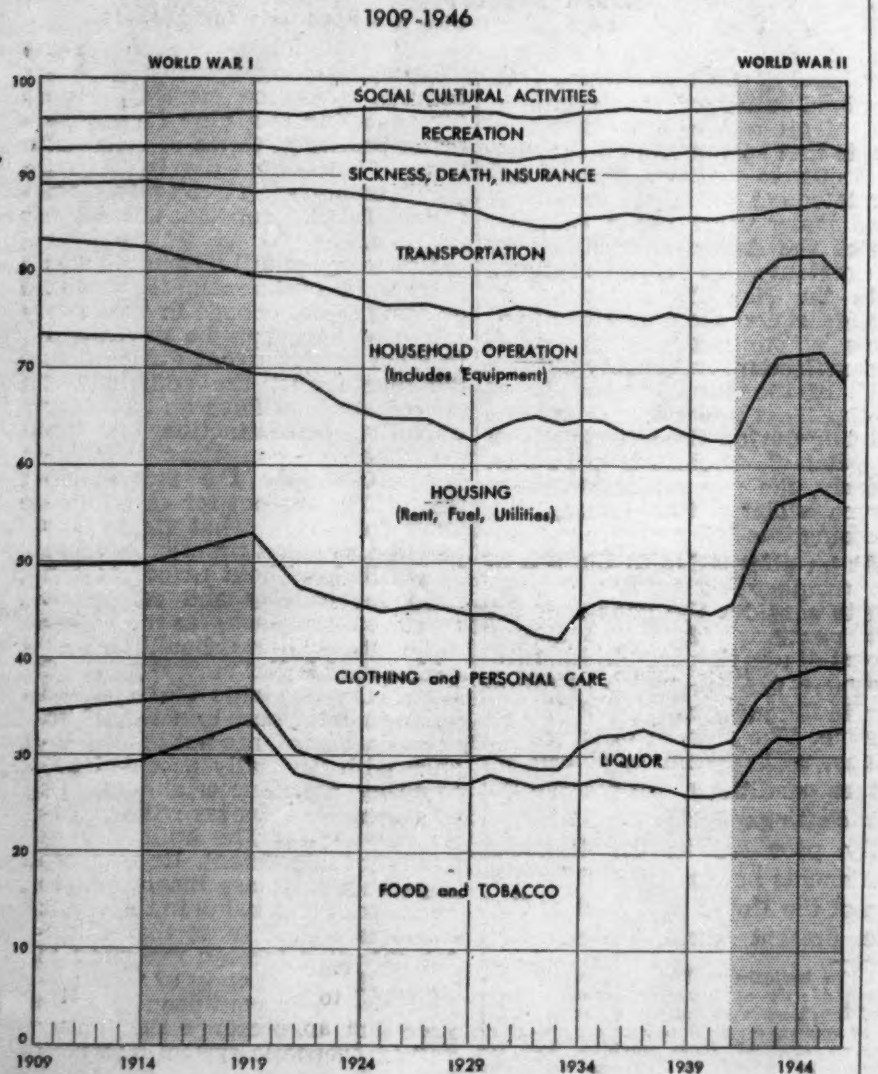
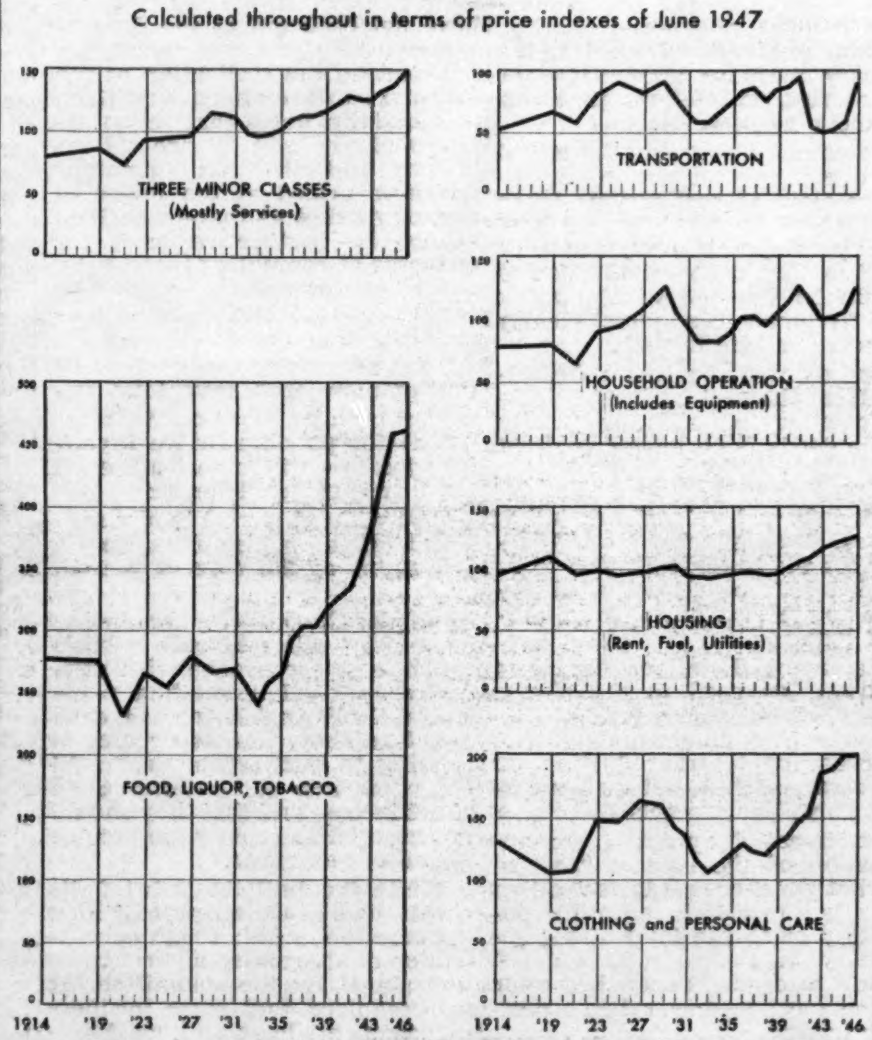


CHART III
CONSUMPTION EXPENDITURES PER CAPITA
1914-1946
Calculated throughout in terms of price indexes of June 1947



top of the chart. Demands for transportation grew at substantially the same high rate in the two periods.

The records depicted in Charts 3 and 4 clearly indicate which wants were growing most rapidly before the war. However, they leave one essential question still unanswered: To what extent are continuing shortages responsible for today's increased spendings on certain types of consumers' goods?

Effects of Postwar Shortages

One approach to an answer consists of estimating how consumers would have spent their money in 1946 if all classes of commodities and services had been in ample supply. The rise in total expenditures per capita between 1940 and 1946 was slightly over 30%. Suppose that the rates of increase in spendings from 1933 to 1940, as shown in Chart 4, could have been continued into 1946. On that assumption, we arrive at the figures tabulated in Table 1.

Here we have a rough indication of the extent to which expenditures for food and clothing have expanded to fill the vacuum left by shortages of automobiles and household appliances. A large excess appears also in housing; but this is illusory, as will be noted later.

In other respects the calculated allocations of per capita spendings in 1946—that is, the allocations as they might have been if postwar shortages had not distorted them—are useful clues to anticipated sales in 1948-49. But further corrections and adjustments remain to be made.

The price relationships among the classes of consumers' goods and the continuing shortages of many durable products which currently affect expenditures will presumably be altered considerably in the next two to three years. These factors and others likely to influence each class of goods must be taken into account.

Food, Liquor, Tobacco—Three-fourths or more of the expenditures in this group are for food. The 42% rise from 1940 to 1946 in per capita expenditures for food, liquor and tobacco (after allowing for price increases) may be roughly apportioned as follows: larger poundage of food consumed, 11%; increased purchases at restaurants and other eating places, including services, 16%; a residual, to be accounted for by shifts to higher priced foods, of 15%. All these three elements in the rise have become strongly entrenched habits. The most vulnerable of the three is restaurant-eating; but even this extravagance, it is safe to say, will not fall off much except under pressure of sharply reduced incomes. The remaining possibility is that food prices may go down so much more (or rise so much less) than other prices as to permit a large reduction in expenditures allocated to this group without seriously affecting present living habits. But no such development seems likely to occur within the next two years. Our conclusion is that the allocation to this group in 1948-49 cannot well be estimated at less than 38% (the calculated percentage in Table 1) if total consumers' expenditures hold at their 1946 level. However, they will be forced down, in spite of strong resistance, to a figure close to 37% if total expenditures decline 10% below 1946 and perhaps to 36% if the total declines as much as 20%.

Table 1—Calculated vs. Actual Per Capita Expenditures in 1946

(Stated throughout in terms of price indexes of June 1947)

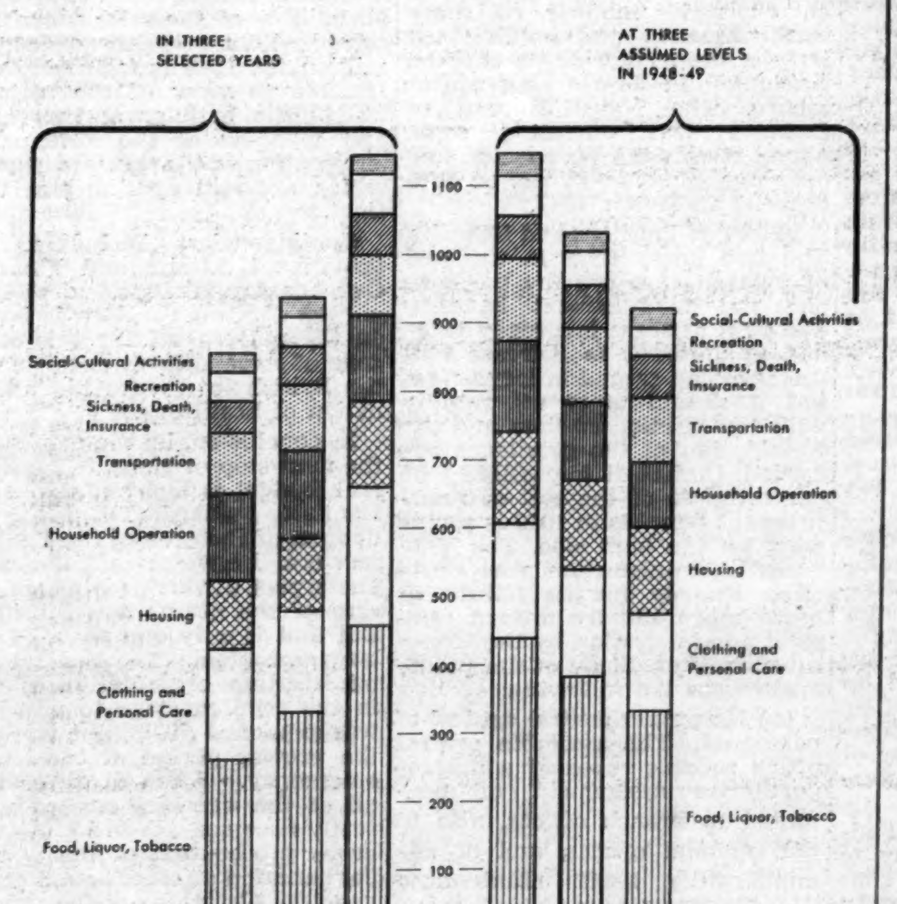
	Actual in 1940	%'s of Total	%'s of gain in 1933-40	*Calculated for 1946	%'s of Total	Actual in 1946	%'s of Total	Excess or Deficiency (—) of Actual
Food, liquor, tobacco	$325	37.0%	36%	$442	38.1%	$461	40.0	$19
Clothing & personal care	133	15.1	25	166	14.2	200	17.4	34
Housing	101	11.5	10	111	9.5	127	11.0	16
Household operation	112	12.7	37	153	13.2	124	10.8	—29
Transportation	87	9.8	53	133	11.5	88	7.8	—45
Sickness, death, insurance	56	6.4	24	69	6.0	63	5.5	— 6
Recreation	39	4.4	50	59	5.1	57	5.0	— 2
Social-cultural activities	27	3.1	4	28	2.4	29	2.5	1
Totals	$880	100%		$1,161	100%	$1,149	100%	—12

*At same percentages of gain over 1940 as those listed in column 3 for 1933-1940.

CHART IV

CONSUMPTION EXPENDITURES PER CAPITA

Calculated throughout in terms of price indexes of June 1947



Clothing and Personal Care—Here we meet a contrasting situation—no steadily rising strength of demand through the peacetime years—on the contrary, a marked falling off from the heights reached in the twenties. Per capita expenditures at mid-1947 prices were $166 in 1927 and $160 in 1929 against $135 in 1940 and $148 in 1941, though total expenditures were higher in both the latter years. Noteworthy, too, is the fact that in no prewar year did the food group and clothing group together take less than 51% or more than 53% of total per capita expenditures. Evidently increases in good spendings in peacetime come in large part out of allotments for clothing. The great rise in this group from 1941 through 1946, therefore, was plainly abnormal. A safe inference is that wardrobes are well stocked. Even if clothing prices remain very high, we see no likelihood of an allocation in 1948-49 of more than 14.5% to clothing and personal care if total expenditures remain at their 1946 volume. On the other hand, judging by past records, the percentage will almost certainly go up if total expenditures decline: to 15% in a 10% decline and to 15.5% in a 20% decline.

Housing—The per capita amounts (at mid-1947 prices) allotted to this group—rent, fuel and utilities—rose gradually from $101 in 1940 to $127 in 1946. The percentages of total expenditures, however, slowly dropped in the same period to an all-time low of 11%. That this allocation is much less than enough to provide urgently needed housing is unquestionable. In April, 1947, according to a computation by the Institute of Life Insurance, 2,754,000 families were sharing living accommodations with other families. When rent control comes off, as it must shortly, and public utilities are given unavoidable increases in rates, expenditures in this group will rise moderately above 1946. The least percentages to be required for this group in 1948-49 are: 12.0% with total expenditures at the 1947 level; 12.8% if they sink 10%; 13.7% if they sink 20%.

Household Operation, Including Equipment—Well over half of this group consists of purchases of home furnishings and appliances which are easily postponable. Expenditures for the group as a whole are closely related inversely to expenditures for housing. The two groups together took not less than 23.9% nor more than 25% in any year from 1934 through 1941. In the 12 years preceding the combined percentages moved within a slightly higher range—from over 24% to a little over 26%. Relaxation of credit controls, if effected sometime in 1948-49, could have a stimulating effect on furniture and appliances. Nevertheless, the pressure of increases in housing costs plus other urgent demands will probably restrict expenditures in this group to not more than the following percentages of total expenditures: 11.5% at the 1946 level of total expenditures; 11% if the total goes down 10%; 10.5% if it goes down 20%.

Table 2

Three Estimates of Per Capita Consumption Expenditures in 1948-49

(Calculated throughout in terms of prices of June, 1947)

	1946 Level		10% Lower		20% Lower	
Food, liquor, tobacco	$437	38.0%	$383	37.0%	$331	36.0%
Clothing and personal care	167	14.5	155	15.0	142	15.5
Housing	138	12.0	132	12.8	126	13.7
Household operation	132	11.5	114	11.0	97	10.5
Transportation	121	10.5	109	10.5	96	10.5
Sickness, death, insurance	65	5.7	62	6.0	59	6.4
Recreation	58	5.0	50	4.8	42	4.5
Social-cultural activities	32	2.8	30	2.9	27	2.9
Total	$1,150	100%	$1,035	100%	$920	100%

Transportation—About 30% of expenditures in this group are devoted to purchases of automobiles; the other 70%, to upkeep and operation of automobiles and to railway and bus fares. The unsatisfied demand for new cars—assuming that output can meet the demand—will undoubtedly raise allocations to the group well above their prewar range of 9% to 10.4%. The percentage assigned to the group does not seem likely to vary much from 10.5% at any of the three assumed levels of total expenditures.

Three Minor Groups—Percentage allocations to the three minor groups at various levels of total expenditures are almost self-evident in the light of prewar experience. Recreation is the most elastic of the three; its proportion rises in good times to a maximum of 5% and falls whenever total expenditures decline. The other two classes, on the other hand, are stubbornly resistant to the ups and downs of total expenditures. The remainders to be divided among them at the three assumed levels are, respectively, 13.5%, 13.7% and 14%.

By applying the percentages explained above to the three assumed levels of total expenditures per capita—that is, equal to 1946, 10% below 1946 and 20% below—we arrive at the figures in Table 2 which are graphed in Chart 5.

A Comparison With Dewhurst's Allocations

In formulating our forecasts we have had the advantages of consulting the monumental study of "America's Needs and Resources," by J. Frederic Dewhurst and associates, recently issued by the Twentieth Century Fund. Their estimates for 1950 (Dewhurst objects to calling them forecasts) were derived from the record of peacetime allocations graphed in Chart 2. At the time of making the estimates this peacetime pattern no doubt appeared to be a sound and acceptable basis. But the swift movement of events has brought changes in price relationships which now make a recalculation imperative.

The wide difference at some points between the basic pattern of the Dewhurst estimates and the pattern here proposed are evident in the following comparison. We list here our percentages for the level 10% below that attained in 1946, because this is approximately the level represented in the Dewhurst estimates of expenditures in 1950.

	Allocation of Total Consumers' Expenditures In the Twentieth Century Fund Study	In the Present Study
Food, liquor, tobacco	31.1%	37.0%
Clothing and personal care	14.0	15.0
Housing	16.6	12.8
Household operation	13.0	11.0
Transportation	10.0	10.5
Sickness, death, insurance	6.6	6.0
Recreation	4.9	4.8
Social-cultural activities	2.9	2.9
	100.0%	100.0%

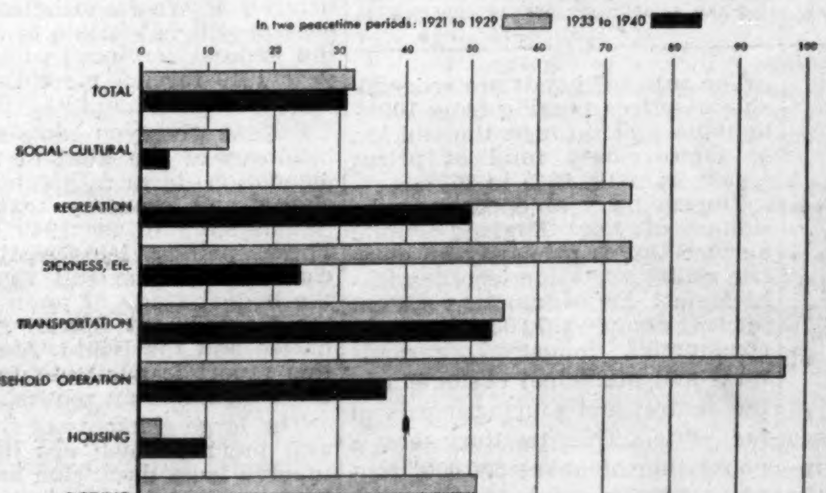
The differences center in food, which gets far too low a percentage in the Twentieth Century Fund allocation, and in housing, which gets far too high a percentage—that is, when these two classes are considered in the light of their present and prospective price relationships with other classes of expenditures.

The only other difference worth special mention is in household operation, including equipment. This is the class with the largest proportion of postponable purchases. It is the one most susceptible, therefore, to the squeezing effect produced by a disproportionate expansion of any other class of expenditures—in the present instance by the expansion of the food group.

CHART V

PERCENTAGES OF GROWTH

OF CONSUMPTION EXPENDITURES PER CAPITA



Forecasts for 1948-49

The postwar boom in this country, one can safely assert, is at, or very close to, its top. This follows from two simple facts: (1) unemployment is at its practicable peacetime minimum; (2) no idle productive capacity worth mentioning for consumer goods is available for early use. Of course, if men wanted to do a full day's work, present records could be shattered. But that idea is merely a bit of day-dreaming.

This is not to deny that **prices** can go higher—conceivably, much higher. If they do—particularly if they move unevenly—they will further distort the prewar pattern of consumption expenditures. But they will not add a nickel to the country's real income.

Output of consumers' goods, except those retained to build up inventories, is equivalent to consumers' expenditures. Since output and expenditures (measured in constant dollars) cannot increase, they must either remain indefinitely on their present level or go down. Whether the boom is to continue indefinitely or is to culminate in a moderate or in a critical slump within the next two years depends on many factors. The question is outside the scope of this article. Our estimates provide for all three contingencies.

If a slump occurs, its possible extent can best be gauged by referring to past experiences. Here are the approximate percentages

(Continued on page 32)

What Will They Buy?

(Continued from page 31)

of decline of per capita consumption expenditures (figured in mid-1947 dollars) in preceding lapses from relatively high levels:

1919 to 1921 (a sharp, short-lived crisis)	12.0%
1929 to 1930 (consumption only moderately affected)	6.5%
1929 to 1931 (continued decline, becoming serious)	10.5%
1929 to 1932 (continued into deep depression)	18.0%
1929 to 1933 (an economic debacle)	22.0%
1937 to 1938 (slight recession in consumption)	3.0%

These percentages do not measure the relative severity of the slumps as a whole but only the movements of total consumption expenditures, which are among the most stable of the major elements in the economy.

Judging from the analogies cited above, unless there should be radical disruptions in labor relations, domestic politics or international affairs, a 10% decline in consumption expenditures is the worst contingency that now looks plausible; and it is quite reasonable to hope that recovery will start from a considerably higher level. We have added estimates for a 20% drop but with no expectation that it will occur.

The assumed 10% decline would carry per capita expenditures, as previously remarked, somewhere near the Twentieth Century Fund estimate for 1950. A 20% drop would bring them down to a little below the 1941 level.

The effects on national sales of major classes of consumers' goods are set forth in Table 3. The figures in this table are the per capita expenditures in Table 2 multiplied by an estimated average population of 143 millions in 1948-49. The dollar amounts assigned to the chief sub-classes listed in this table are derived from a review of prewar ratios modified by consideration of existing price relationships and known demands arising from war-created shortages.

Even if the present level of spendings is maintained, moderate declines in foods and beverages and in restaurant service and rather drastic declines in clothing and jewelry are to be anticipated, as consumers' money begins to flow more freely toward rent, furniture, household appliances and, most of all, automobiles.

In the event that total per capita expenditures sink to 10% below the 1946 level, further losses by foods, restaurant service, clothing and jewelry are in prospect and sales of household furniture, equipment and appliances may be expected to slip somewhat below 1946.

In summary, the frequent assumption that we will soon return to the prewar pattern of consumption expenditures seems to us clearly a fallacy—and a dangerous fallacy insofar as it influences business plans. However, unless consumption should fall off considerably more than 10%, which we see no reason to expect, the outlook does not appear alarming.

The next two to three years are likely to prove disappointing to those who now foresee only an endless continuation of eager demands for their products. It will spell difficulties also for companies that neglect to prepare for selling their products against increased buyer resistance and intense competition. However, well managed businesses have come through more trying periods with flying colors and can do so again.

***Table 3—Three Estimates of National Sales to Consumers at Retail Values in 1948-49**

(In billions of dollars; calculated throughout in terms of price indexes of June, 1947)

	Assuming that total per capita expenditures are: On 1946 level	†+ or —	10% below 1946	†+ or —	20% below 1946	†+ or —
Food, liquor, tobacco	62.5	— 2.3	54.8	—10.0	47.4	—17.4
‡Foods and beverages purchased for home consumption	44.0	— 2.4	38.6	— 7.8	34.4	—12.0
Purchased meals and beverages (chiefly in restaurants)	14.1	— 0.3	12.0	— 2.4	9.0	— 5.4
Tobacco products	4.4	+ 0.4	4.2	+ 0.2	4.0	—
Clothing and personal care	23.9	— 4.2	22.2	— 5.9	20.3	— 7.8
Clothing, accessories, shoes	17.5	— 4.4	16.9	— 5.0	15.9	— 6.0
Jewelry, watches, luggage	1.6	— 0.4	1.1	— 0.9	0.7	— 1.3
Cleaning and repair services	1.8	+ 0.3	1.7	+ 0.2	1.7	+ 0.2
Personal care	3.0	+ 0.3	2.5	— 0.2	2.0	— 0.7
Housing	19.7	+ 1.9	18.9	+ 1.1	18.0	+ 0.2
Rent and imputed rent	14.2	+ 1.6	13.9	+ 1.3	13.2	+ 0.6
Fuel and lighting supplies	3.0	+ 0.2	2.7	— 0.1	2.6	— 0.2
Household utilities	2.5	+ 0.1	2.3	— 0.1	2.2	— 0.2
Household operation	18.9	+ 1.5	16.7	— 0.7	13.8	— 3.6
Furniture and equipment	9.5	+ 1.0	8.2	— 0.3	6.4	— 2.1
Mechanical appliances	1.8	+ 0.3	1.3	— 0.2	0.8	— 0.7
Service expenses	7.6	+ 0.2	7.2	— 0.2	6.6	— 0.8
Transportation	17.3	+ 4.9	15.6	+ 3.2	13.7	+ 1.3
§Automobiles, accessories, parts	7.5	+ 3.1	6.3	+ 1.9	5.0	+ 0.6
Automobile upkeep & operation	6.0	+ 1.3	5.7	+ 1.0	5.5	+ 0.8
Public carrires	3.8	+ 0.5	3.6	+ 0.3	3.2	— 0.1
Sickness, death, insurance	9.3	+ 0.4	8.8	— 0.1	8.6	— 0.3
Sickness and death expenses	6.8	+ 0.2	6.5	— 0.1	6.4	— 0.2
Personal insurance	2.5	+ 0.2	2.3	—	2.2	— 0.1
Recreation	8.3	+ 0.3	7.2	— 0.8	5.8	— 2.2
Sports and amusements	2.7	+ 0.1	2.6	—	2.2	— 0.4
Commodities	5.6	+ 0.2	4.6	— 0.8	3.6	— 1.8
Social-cultural activities	4.5	+ 0.4	4.3	+ 0.2	3.9	— 0.2
Totals	164.4	+ 2.9	148.1	—13.4	131.5	—30.0

*Derived from per capita expenditures listed in Table 2 and an estimated population of 143 millions.

†Plus or minus the corresponding sales in 1946.

‡Includes government purchases and foods raised on farms.

§The figures for automobile purchases are 70% of total purchases of new passenger cars and net purchases of used cars; the remaining 30% is allocated to business purchases.

Halsey, Stuart Offers Central Maine Bonds

Halsey, Stuart & Co. Inc. offered to the public Dec. 10 $4,000,000 Central Maine Power Co. first and general mortgage bonds, series P 3¼%, due Nov. 1, 1977 at 102.91% and accrued interest. The firm won award of the bonds at competitive sale Dec. 9 on its bid of 102.0299.

Net proceeds from the sale of new bonds will be used ot reduce outstanding bank indebtedness incurred since Sept. 1, 1947, the proceeds of which were used for the purchase or construction of property.

The series P bonds are redeemable at prices ranging from 106% to 100% and through the sinking or improvement fund at prices scaled from 102.92% to 100%.

The company, an operating subsidiary of New England Public Service Co., is primarily an electric utility operating wholly within Maine. Its distribution system serves about 137,000 domestic, commercial, industrial, agricultural and municipal customers in the central and sourthern part of the state. This territory has a population of about 560,000, representing approximately two-thirds of the total population of the state, and embraces the greater part of its industry.

Tailoring The Federal Budget

(Continued from page 15)

settling quietly for a total of $35 billion or more.

I have said that we regard this budget as a realistic one. The basis of that view is that the supporting material entering into it has been derived from the recommendations of the Appropriations Committees of the Congress. You will recall that the Joint Legislative Committee on the budget approved a maximum of $31.5 billion dollars for the fiscal year 1948. The House accepted this ceiling, but the Senate adopted a figure of $33.5 billion. Neither amount proved to be controlling, and the actual expenditures for the fiscal year 1948 are now estimated by the President to be $37 billion. Such preliminary hints that have been given out as to the probable budget requests for 1949 indicate a total of some $34 billion exclusive of foreign aid and rehabilitation.

Our maximum budget for 1949 is close to the House ceiling figure for 1948. In the course of the hearings and discussions on the various appropriation bills, the members of the House Commitee on Appropriations drove hard to produce a set of bills that would come close to this ceiling. The reports of the several subcommittes of the House Committee contain much information in support of the reductions proposed. The procedure used in compiling our maximum budget was to note the amounts proposed by the House for 1948, and to give effect to the economies which were shown to be possible without impairment of services. In a few cases account was taken of statements by administrative officers as to further possible economies, and in the case of public works, some adjustments were made even in the House figures for 1948, on the ground that the conditions cited by the President in August, 1946, for suspending such activities would probably still be present in the fiscal year 1949. These conditions were the high cost of materials, high wages of labor, and the general scarcity of supplies entering into construction projects.

In short, except for the item entitled "contingencies, including international affairs and finance," our budget for 1949 is substantially the budget which the House would have set up for 1948. It is an indication of the kind of spending reduction that would be possible if all of the recommendations made by the subcommittees for the observance of better business methods and greater operating efficiency were to be observed.

We have accepted the data that have been established on this kind of logic as a reasonable framework for the 1949 budget. We do not contend, nor did the Congressional committees, that everything possible in the way of greater efficiency and economy has been reflected in the figures before you. We are satisfied, however, that it is possible to operate the Federal services in the fiscal year 1949 for no more than $31 billion.

Let me give you some specific instances of the kind of recommendation toward greater efficiency and economy that enter in this story of the 1949 budget. These points, incidentally, are continued in the full report on the budget study as approved by the Government Spending Committee and the Board. A copy of this report is available to interested members on request.

The large elements of the Federal budget which are likely to involve most discussion and controversy are defense, veterans, general government and foreign aid. You are entitled to know something about the manner in which the amounts proposed for these purposes in our maximum budget for 1949 were determined.

National Defense. The point of view from which our proposed expenditure for defense was approached was expressed by the House Subcommittee on the War Department bill, namely, that the trend is toward a peacetime Army. The Congress has enacted legislation setting the ultimate size of the armed forces in the Army at 1,070,000. Until this number is changed, we must accept it as settled policy. Our story can be summarized as follows:

(In millions)

	War Dept.	Navy Dept.
Estimate of expenditures 1948, as of Aug., 1947	$6,061	$4,037
House subcommittee economy recommendations	476	377
Expenditures in 1948 giving effect to House economies	5,585	3,660

In the case of both departments, there were implications in the subcommittee reports that further economies in administrative and operating expenses were available and should be sought. Hence we concluded that with a continued trend toward a peacetime defense establishment, it should be possible to maintain an adequate defense program, on the standards set by the Congress, at an expenditure of $5,500 million for the War Department, and of $3,500 million for the Navy Department.

The economy recommendations made by the subcommittees were in no sense intended to weaken or impair the defense establishment. Let me emphasize again that they were aimed simply at the low order of administrative practices prevailing, and at the excessive personnel. The War Department, for example, is carrying, this year, one civilian employee for every two men in uniform. During the war the ratio was one civilian for six soldiers. When the bill was passed setting the size of the Army it was testified by high-ranking military authorities that the officer strength of the new peace time Army should constitute 10% of the total. This year the officers constitute 13% of the total. Nearly $300 million of the economy reduction recommended for the War Department in 1948 was to be achieved through reductions in civilian and military personnel.

Similar criticisms were directed against the Navy Department, which was found to be operating an excessive number of shore establishments, and holding too large a proportion of its enlisted personnel in training status ashore. The Naval Bureau of Ordance was operating some plants at only 3% of capacity, and only one plant in excess of 50% capacity in March, 1947.

Veterans' Pensions and Benefits. The two large items in the cost of veteran care are the pensions and the readjustment benefits. The first of these is already large and is destined to increase still further. The second is large now, but it should taper off rapidly with the passage of time and the termination of the privileges accorded. In fact, it is possible that our estimate of the cost of readjustment benefits in 1949 is somewhat on the high side. The Veterans' Administration was criticized sharply for its failure to move more rapidly toward efficient administration by the House subcommittee. Some of the points made were the following:

(1) No proper central control of personnel. The available central office records revealed a disproportionate assignment of personnel to branch offices, also to the regional offices, and of administrative and maintenance personnel at hospitals.

(2) A lack of proper control over supplies.

(3) Delay and lack of efficiency and economy in real estate and construction.

(4) Excessive construction costs.

(5) Duplication of work and peronnel, and a bad mix-up in insurance records. More than 1,200,000 premium payments had not been allocated to insurance policies at the time of the hearings.

Our total of $6,500 million for veterans in 1949 includes $3,200 million for readjustment benefits. Even if we assume some increase in the cost of pensions, it is clear that shortly thereafter the cost of the veterans program should fall below $4,000 million, unless some new device for spending additional billions is foisted upon us.

General Government. The expenditures under this heading include legislative and judicial activities, executive management and control, the Government's contribution to Civil Service retirement funds, and various special programs growing out of the war, such as disposal of surplus property.

The record of the spending under this function is a good guide to what it should cost in the future. In this respect, it differs from the postwar cost of other services, some of which must now be carried at levels having no relation whatever to their prewar cost. It is futile, for example, to refer to the expenditure for interest on the public debt, or to the cost of defense in 1940, as guides to our present obligations for these services. But it is proper to consider the record in the case of the general overhead function which is called "General Government." The figures for recent years have been as follows:

Year	General Govt. (Million)
1944	$808
1945	789
1946	989
1947	1,500
1948 (estimated)	1,240

The principal reason for the immense increase in 1947 and 1948 is the inclusion of the heavy cost of the War Assets Administration and some other similar agencies. We should be thankful that the job of giving away our war surplus at about 5 to 10 cents on the dollar of original cost will shortly be completed, for the cost of this so-called selling job has been about 30% of the sales value received. Our estimate of $1,000 million for 1949 is eminently defensible in view of the historic trend of the basic general services, and in view of the anticipated termination of the special agencies which are still operating in this field.

Contingencies, Including International Affairs and Finance. Our maximum figure of $4,000 million for this function is based on the pattern set for this category of expenditures exclusive of the British loan since the termination of hostilities.

In conclusion, let me emphasize the next step or steps, if the Federal Budget is to be further substantially reduced. This is the reduction of the area of the Federal services. I have already indicated one aspect of this problem in the case of the grants and subsidies. But that is only one phase of the larger problem. The Federal administrative organization is still in the swollen stage to which it was expanded during the war and the prewar period of continuous emergency. I cannot agree that all of the agencies created were really necessary, even for the vigorous prosecution of the war or the handling of other actual emergencies. Certainly, at the present time, many of them are no longer needed. If they are not promptly liquidated, every effort will be made by the bureaucrats to find

new activities that will provide some color of justification for their continuance. It will be another case of Satan finding work for idle hands to do. The special commission headed by former President Hoover is dealing with this matter, and it needs the utmost support that we can give, as individuals and as a national organization. In years past we have talked about, and the NAM Board of Directors has approved, long-range Federal Budget goal of $20 billion. As we move further into a normal peacetime period, our best hope of realizing such goals is by a contraction of the scope of the Federal organization.

Forecasts of the revenue outlook for 1949 are necessarily uncertain at this itme. If we assume however, that the Federal net receipts in that year will be no greater than the President's most recent estimate of receipts for fiscal 1948, namely $41 billion, there would be a surplus of $3 billion for debt payment after giving effect to NAM's tax reduction program, which is estimated to save taxpayers some $7 billion.

The big question in the minds of most of you is: Is a budget of $31 billion really possible for the fiscal year 1949? We believe that it is, or we would not have taken up your time and ours in talking about it. But it is realizable only if the Congress acts courageously in appropriating the money for 1949. The thing about a member of Congress which all of us have noted many times is that he is meek and cautious when he feels that he is standing alone, but he is full of tiger milk when he knows that his constituents are back of him. If you want your Congressman or Senator to do his part in holding the budget down to $31 billion or less, you have the job of letting him know where you stand. And after having sent him a strong letter or telegram urging economy, don't give the show away by also asking for more Federal money in your district, or city, or State.

American Ins. Stock Offered at $13 per Sh.

Stockholders of American Insurance Co. of Newark, N. J., are being offered a new issue of 662,504 shares of the company's $2.50 par value capital stock at $13 per share, on the basis of one new share for each two shares owned at the close of business on Dec. 1. The First Boston Corp. heads a nationwide group of investment banking firms which is underwriting the offering to stockholders. The subscription period expires at 3 p.m. on Dec. 22.

Proceeds from the issue are estimated to be approximately $8,407,176. They will provide the company and its three subsidiaries, known as the American Insurance Group, with additional capital funds, enabling the group to maintain its relative position in the expanding field of fire and casualty insurance.

Net premiums written by the group have increased from $18,170,411 in 1937 to $53,123 729 in the 12 months ended Sept. 30, 1947. During the past ten years the ratio of consolidated capital and surplus at the year-end to consolidated net premiums written during the year ranged from a high of 78.2% in 1938 to a low of 46.5% in 1946. The ratio of such capital funds on Sept. 30 of this year to consolidated net premiums written during the 12 months ended on that date was 33.5%. The current financing, when completed, is expected to increase the ratio to about 49.2%.

Richard Knight Dead

Richard Knight, Assistant Manager of Craigmyle, Pinney & Co., members of the New York Stock Exchange, died at the age of 72.

As We See It

(Continued from first page)

credibly large gifts, entice these peoples from their totalitarian temptors and make of them a sort of rampart in our own self-defense against this onward moving tide of authoritarianism. If either of these premises is seriously defective, then the whole case for the larger part of our foreign aid program falls to the ground.

Before proceeding to consideration of these assumptions it may be well to observe that the first is not quite so simple as it may seem. We have given it expression in about the official form, but in the minds of many Americans—and if we may say so, we suspect in the minds of officialdom—it is not simply totalitarianism that is feared but Russian imperialism. In fine, we are told that we have just fought a bloody war against totalitarianism and now find ourselves engaged in a "cold war" against the same plague in slightly different form, imposition of which from without is now threatened in many if not most of the countries of Europe and Asia.

Soviets Active

It must be admitted, of course, that the Soviets appear to have some such program actively under way, that they are far more interested in such doctrinal proselytism than ever was Hitler or Mussolini. It is evident that they intend to have communistic regimes under their own thumbs in charge along their western border, and are prepared to go to whatever length may be necessary to achieve that end. In this they, in one sense, are copying the tactics of others who have gone before them, including their own predecessors who constituted a tyranny imposed within their own borders by another clique or element in the population. It is likewise evident that they intend, if they can (probably short of war) to underwrite similar regimes in many if not all of the other countries of Europe and probably in parts of China and elsewhere in Asia.

But let us not make the mistake of supposing that this dirft or movement in Europe and elsewhere throughout the world toward forms of social and economic organization radically different from that which the Constitution of the United States established in this country a century and a half ago, is entirely Russian inspired. Russia has had extended experience for centuries in fishing in troubled waters. Let their be no mistake about that. It is one of the favorite pastimes of that country—as it was and doubtless will be again of a good many other nations. The difference now is that virtually the whole world constitutes troubled waters. Peoples everywhere in the world are turning to leaders and to programs anathema to American traditions, and are often doing so quite without the benefit of Russian leadership. In our own country, even those elements in the population, and certain public figures, who are most vigorous in denunciation of communism and Russia, are themselves far more frequently than not urging policies here in the United States which in substance, if not in form, are crassly alien to American tradition.

Leftward Drift

From all this we must conclude that there is a very definite drift toward "the left" throughout the world. In Europe the tendency appears in many countries at least to be more marked than in the United States. Indeed more than one of the new-fangled ideas of the New Deal and of its successors appear to have been imported from across the Atlantic. How far this straying away from anything worthy of the name of democracy, free enterprise and all the rest is likely to go in Europe before the pendulum starts upon its return journey it would, of course, be impossible to say. It may go a long way. Obviously, however, this movement may or may not come under the dominance of Russia. It often has its springs in other quarters. It is in many instances either indigenous or else has become thoroughly acclimated. Russia in her proselyting is certainly sticking her nose into the domestic affairs of other countries, but in the circumstances it obviously can not be said that we are free from the same taint.

Now, what is to be said in light of these facts of the likelihood that we may succeed in our political bribery? In this connection let it be observed that the political beneficiaries of our largess are often but little interested in our concepts of democracy, and in some instances at least are actively at work violating those very concepts. In the second place, we are quite obviously rank outsiders in the eyes of many of the peoples of these countries, and, accordingly, any strings which we may be disposed to place on these munificent gifts will certainly arouse the suspicions of many of the recipients who naturally desire to remain as free of American domination as they do of Russian. The Russians have, as is well known, long entrenched themselves among the discontented in all or nearly all these countries, and their minions will not be slow, indeed have not been slow, in crying out about American interference in matters purely European. Russia has the advantage not only of being on the ground in a well organized way, but has the advantage of being European—or at all events half-European.

Not So Simple

Another aspect of all this appears to have escaped general notice. Most of the people we are so eager to "save" from Russian communism have been repeatedly over-run by opposing armies during the past quarter of a century or more, particularly during the past decade. Even those elements in their population which have no sympathy with communism, or with Russian schemes, likewise have no desire to become crushed between the opposing forces east and west of them. They are sick unto death of war. They see no reason why they should become involved at some later date in an armed struggle between the United States and Russia.

They regard us as having so much wealth that we could if we chose, without any material sacrifice, supply them with practically any of the things they refuse to provide for themselves, but if accepting such largess is likely to involve them in some future war of the Titans, they lose some of their enthusiasm. It would appear that this world situation is not as simple as sometimes suggested.

Observations

(Continued from page 5)

American trust has now become a thoroughly respectable and useful, if somewhat less glamorous, avenue of investment.

Potentially Misleading Deductions From Regulation

There has been considerable danger of importantly fallacious conclusions being drawn by the public from the SEC's revelations of past capital shrinkages, of former malpractice, together with the subsequent imposition of "reform" legislation.

The lay investor should not have the impression that there is a cause-and-effect relationship between the disappointing record of achievement during the depression and unethical practice, or that hence the reform legislation gives a "government guarantee" of either speculative profitability or investment safety.

Analysis of the actual management performance of the British trusts, whose revered tradition of good practice has been held out as the desirable pattern for our younger movement, proves the fallacy of expecting extraordinary operating success to result directly from the insurance of good ethical practice.

Abortive British Results

For the record of operating results chalked up by experienced and ethical British management over a number of years has been surprisingly bad. The British trusts have not managed capital any more successfully than has the average lay investor. During the post-1929 deflation, heavy accepted capital losses, dividend reductions and shrinkages in asset values were widely suffered. By 1933 54 out of 197 trusts had passed their common dividends, and of the 50 trusts formed in 1928-29 only 26 were able to pay any dividends whatever in 1933. Between 1928 and 1932, even the regular investment income (excluding capital losses) fell by 33% against a concurrent decline in industrial earnings of only 26% and it was necessary to effect six important reorganizations. Almost 25% of the trusts failed to earn their preference dividends during the period.

The value of the assets of the 29 companies which published their "hidden reserves" in both 1929 and 1933 fell from 22% above, to 22% below, book value during that interval; and in only two cases did the portfolio value remain "above water." By 1933, the aggregate of previously accumulated reserves was completely wiped out; the preferred shares of 44 of the 126 leading companies being uncovered by a deficiency of assets averaging 25%. During the entire period from 1929 onward the record of asset conservation made by the British trusts in comparison with the course of security prices in general was distinctly unfavorable. This is seen by a comparison of the course of valuation of the 40 leading trusts, adjusted for alterations in capital, compared with general bond-stock index weighted to correspond to the trusts' equivalently proportional holdings of bonds and preference shares.

In the categories both of investment income related to industrial earnings and capital conservation related to the course of their respective markets, the data clearly show that ever since 1929 the American trust management outperformed the British.

The writer had the opportunity of examining at first-hand in England the reports of some trusts for their operations during 1938. Even then the valuation of their assets at current market prices showed a deficiency below book values in 76 of the 100 cases. Of those 76 companies, 54 showed their common stock to be not fully covered; that is, that previously accumulated reserves plus the previous year's undistributed earnings were insufficient to cover the discrepancy between their assets' market value and their share capital.

* * *

So we see that the Investment Company has fully come of age in the United States, and that the American trust is to be considered as an institution well able to stand on its own feet—with its individual characteristics—as a long-term "tool" for the advantageous use of the prudent long-term investor.

And in the selection of particular investment companies, as with the general run of securities but more easily, our thorough investor can apply various tests of comparative and absolute quantitative valuation.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Present lows considered cheap despite widespread bearishness.

The dangers of an automatic market I pointed to last week were confirmed sooner than I expected. To quote from last week's column, "This goes back to a market fundamental that if enough people recognize a certain signal the chances are that the signal is completely meaningless. Or worse still, it may be entirely erroneous."

* * *

The pattern for the past few weeks has been almost childlike in its simplicity: Buy them at 178; sell them at 184 or better. It was easy as that. No poring over balance sheets; no listening to "inside information," just remember two points—178 and 184.

* * *

The same column I quote from above also warned that such procedure was explosive and could spray traders with losses.

* * *

There is little doubt that the 178 figure had a large following. If there is any question of it, it could be dispelled by reading most of the market letters. So what happened? Last Friday and Saturday the mystical 178 figure was broken with the industrials slipping to around 175. The reaction was prompt. The bearishness, always latent, sprang to the surface and the forecasts of immediate doom were accepted as a foregone conclusion.

* * *

In many a previous column warnings have appeared against following the obvious. The general pessimism today is a case in point. The 178 figure was broken. Practically everybody who had a smattering of technical market knowledge was watching it. Now that it broke, the conclusions are lower prices ahead.

* * *

I don't agree. I haven't figured out where to put stops in this market, but I don't have to be hit on the head when I see and hear the future forecast so unanimously.

* * *

I don't pretend to know if stocks will go lower. But I think that enough potential grief has been anticipated to believe that the next important move will be up.

* * *

If you want to know why, I can only guess. And my guess is probably no better than yours, may even be worse. But guesses don't pay the bills. So I'll leave them for somebody else.

* * *

Right now I think the steels, oils and coppers are cheap. They may get cheaper but I can't pick the lows. Bethlehem at 96 or so, U. S. Steel around current prices and the rest at Friday's and Saturday's lows look attractive.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Hemingway With William J. Collins & Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ORE.—Donald P. Hemingway, for many years with Ferris & Hardgrove and prior thereto a principal of Hemingway & Carpenter, has become associated with William J. Collins & Co., U. S. National Bank Building.

Theron Conrad, Member of Phila. Stock Exchange

The investment firm of Theron D. Conrad & Co., Inc. has been elected to membership on the Philadelphia Stock Exchange. With its main office in Sunbury, Pa., at 416 Market Street, the firm maintains representatives in most Eastern Pennsylvania sections.

Dean Harris in Lincoln

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, ILL.—Dean J. Harris is resuming the investment business from office in the Griesheim Building. In the past he was active as an individual dealer in Lincoln, and prior thereto was a partner in Harris & Lively.

With Stoetzer, Faulkner

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Harry J Doerfler has joined the staff of Stoetzer, Faulkner & Co., Penobscot Building, members of the Detroit Stock Exchange. He was previously with Keane & Co. and W. E. Hutton & Co.

With Maxson Securities

(Special to THE FINANCIAL CHRONICLE)

SOUTH BEND, IND. — George Stevens has been added to the staff of Maxson Securities Co., 222 East Irvington Avenue.

Joins H. O. Peet Staff

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB. — Walter R. Bowen has been added to the staff of H. O. Peet & Co., Farnam Building.

A Bank Investment Portfolio

(Continued from page 7)

ties ought to adopt a severely restrictive credit policy in order to combat the forces of inflation. If such a policy were to be adopted, it would mean higher yields and lower prices for government securities.

The monetary authorities have already made several cautious moves in the direction of restraining the volume of bank credit and some additional moves are generally anticipated. As we all know, these measures and the expectation of more to come have already resulted in fairly sharp declines in prices for government securities.

No one can say for sure just how far the policy of monetary restraint may be carried or precisely what the effects will be upon the government bond market. However, we do know that the Government cannot possibly afford to have prices decline to a point where holders of $50 billion worth of savings bonds will become disturbed and start flooding the Treasury with demands for cash redemption. Such a development would be a disaster of the first magnitude in the fight against inflation. Moreover, it is widely recognized that credit restrictive measures, unless carried to disruptive extremes, are extremely weak medicine in trying to combat inflation. We also know that the size of the national debt and the cost of servicing it are factors that cannot be ignored in determining monetary policy even under existing conditions. Finally, when the inflationary dangers have subsided, it is to be expected that low interest rates for Treasury borrowing will be the factor of overshadowing importance in the minds of the monetary authorities, regardless of what administration happens to be in power.

It may be reasonable to conclude, therefore, that yields on government securities will probably remain at *relatively* low levels for some years to come. On the other hand, it is obvious that no one can be absolutely certain as to what the level of interest rates will be a number of years from now. It goes without saying that a banker cannot for a moment permit the financial stability of his bank to be jeopardized by betting too heavily on continued low interest rates.

On the other hand, even if you think interest rates are likely to rise, it would not be conservative banking, in the true sense of that term, to adopt an extremely short investment position if such a policy might endanger your bank's earning capacity, the number one essential of any business. Losses of income are just as serious, sometimes, more serious, than market depreciation on high-grade bonds. Investment policy should provide protection against the possibility of continued low interest rates as well as against the possibility of higher rates.

"Your Bank's Circumstances"

The next group of questions, as you will see, is entitled: "Your Bank's Circumstances." Unless you adhere to some rigid formula for your entire portfolio, the composition of your bond account will depend to a great extent upon your analysis of the circumstances of your particular bank.

The first and obviously the most vital question is "How much risk of depreciation and losses might there be in your assets in relation to the protection afforded by your capital accounts?" In other words, how strong is the financial position of your bank today and how vulnerable might your assets prove to be under adverse business and bond market conditions?

As we all know, the volume of bank loans has been expanding at a record rate during the past year and a half, particularly during recent months. Many of the loans that have been made are based upon inflated valuations and many of the businesses which have borrowed money are making good profits today only because they are operating in a seller's market. In addition, some bankers have been granting consumer loans without adequate analysis of the risks and pitfalls of this type of lending.

At the end of June of this year the average country member bank had loans plus securities other than governments equal to more than four times its total capital accounts, whereas the ratio at the end of the war was less than three times. As of right now, this ratio is rapidly approaching five times total capital accounts. If the present rate of loan expansion continues for another six months the ratio will exceed five times total capital accounts by a substantial margin. That, gentlemen would be a higher ratio than existed just prior to the 1931-33 collapse.

Obviously there is no good rule-of-thumb as to what the ratio should be between a bank's risk assets and its capital accounts Nevertheless, the foregoing figures do suggest that some banks already have a relatively high ratio and that the degree of risk in the loan portfolio might prove to be substantial in the event of a severe business depression.

This obviously has a very direct and vital bearing upon investment policy. Unless a bank has a better-than-average capital ratio, then to the extent that the degree of risk in its loan portfolio increases, the risk in the investment portfolio should be reduced. Second grade securities should be eliminated and holdings of long-term maturities, especially corporates and municipals, should be cut down, thereby strengthening the market stability of the portfolio.

The degree of market stability needed for your account will also depend in part, of course, upon your liquidity requirements. What may be the extent of future fluctuations in your loans and in your deposits? The answer for your bank will depend partly upon various local factors that you alone are in a position to analyze: the composition of your deposits and the character of the territory you serve.

Question of a Depression

An important question to bear in mind is: "Could you readily meet all deserving demands for credit in the event of a severe depression?" During 1930-33 many banks were not able to meet all deserving demands for credit. As a matter of fact, many loans which were basically sound were called for payment. This caused hardship to the community and put the banking profession under a cloud of public disfavor from which it has not entirely emerged even today.

If this should occur again, we can all guess what the result might be: renewed agitation for the nationalization of the banking system. Bankers must make sure that this does not happen. In the event of another depression, every bank should be in a position to meet all creditworthy requests for loans from its customers.

Having studied your safety position and your liquidity requirements, you should now be in a position to answer the next question on the list: "Is a very high degree of market stability required for all your investments or are you justified in regarding earnings as an important consideration in connection with your investment policy?" Earnings should not be a consideration in investment policy unless your bank is in a strong financial position and unless your liquidity requirements are adequately covered.

Many banks, however, are justified in giving considerable weight to their earnings requirements. If this is the case for your institution, the next question, obviously, is: "What is the outlook for your bank's earnings?" An attempt should be made to look ahead, not just for six months or so, but for several years, to see what may happen to your earnings position. This is particularly true if your investment portfolio contains large amounts of securities due within the next several years which are on your books at higher yields than are available in the market today on short-term issues. Unless action is taken in time, such a bank may be confronted with a serious earnings problem a year or two from now when these high-yielding bonds mature.

Question of Taxes

In connection with your earnings position, taxes are obviously an important factor. Tax exempt income is far more important, of course, to banks which have taxable income in excess of $25,000 than to those whose income is less than $25,000. Also, a net capital loss resulting from sales of securities is obviously more advantageous from a tax standpoint to the extent that it offsets taxable income in excess of $25,000. There is also the differential between the 25% capital gains tax and the higher tax rates on income, which may be a point to keep in mind in considering portfolio adjustments, particularly for banks which expect to be in the 53% tax bracket for a number of years. Many bankers have found that they can effect substantial savings by estimating their tax position well in advance rather than waiting until the year is over before computing their taxes.

Maturity Distribution

The next group of questions, as you see, refer to your specific investment policies and objectives. The first two questions in this group relate to the matter of maturity distribution.

Some persons talk about maturity distribution in terms of the average maturity of the portfolio. Average maturity may at times be a very misleading figure. It does not take into account the bank's cash position, nor does it indicate the portion of the bank's liquid assets that may be held against large temporary deposits, such as a big war loan account. For this reason, the matter of maturity distribution should be broken down into at least two parts: (1) the amount of cash plus very short-term securities required against possible demands for funds by borrowers and depositors over the next year or so, and (2) the balance of the portfolio. As indicated earlier, a substantial part of the balance of the portfolio should consist of issues due or callable within about ten years. The extent to which holdings should be concentrated in the shorter issues, say due within five years, should depend upon your judgment as to future trends in your bank's loans and deposits. Other things being equal, it may be desirable to have some concentration in issues callable around 1952.

Holdings of long-term securities, for the average bank, should be limited to amounts that can be regarded as permanent investments to be held to maturity. The determination of a suitable amount of long-term securities will involve consideration of the volume of your savings deposits, the size and composition of your mortgage portfolio and also the trend of your total mortgages. There is much to be said for a policy of reducing your holdings of long-

term bonds as your mortgage loans increase.

Incidentally, in comparing the maturity distribution of your own portfolio with average figures for various groups of banks you have to be sure, of course, that maturities are computed on the same basis in the case of government bonds that have optional call dates. The figures that appear in the Treasury Bulletin are based upon call dates, whereas the figures given in the Federal Reserve call reports are based upon actual maturity dates. The use of actual maturity dates is doubtless more conservative but the use of call dates may be considerably more realistic, especially in the case of the partially tax exempt issues.

Quality of Investments

What should be your objectives and standards with respect to the quality of your investments? That is probably the easiest question in this entire list. After the experience of the 1930's, most bankers are convinced that a bank portfolio should contain only high-grade securities. Moreover, at the present time many medium-grade corporate and municipal issues are still selling at prices which appear to be quite high in comparison with the prices at which they have sold upon many occasions in the past.

The next question is the matter of diversification among various classes of securities. Your objectives with respect to diversification will depend to some extent upon your tax position. Banks in the $25,000 to $50,000 tax bracket can hardly afford to ignore the advantages of partially tax exempt government issues and of fully tax exempt state and municipal securities. In view of the large volume of municipal bonds that will be offered in the market in the next few years, however, bankers may be wise to restrict any purchases of municipals to top-quality credits and also to fairly short maturities.

As for corporate bonds, as we all know there has been a rather sharp decline in prices in recent months. The market for corporate bonds is dominated by the life insurance companies. During the war, the insurance companies were willing to pay exceptionally high prices for corporate bonds because they had so few profitable outlets for their investment funds. Over the past year, insurance companies have been able to expand their mortgage loans substantially and there has been an increasing supply of new corporate bond issues. As a natural result, market yields on corporate bonds have readjusted to a more normal relationship to yields on government securities.

No one can say with certainty, of course, what the future holds for corporate bonds. One point to remember, however, is that the insurance companies hold around $20 billion of government securities. If the differential in yields between governments and corporates should begin to widen appreciably, the insurance companies and other investors as well would tend to switch from governments into corporates to obtain the better yield. This would obviously tend to keep the spread from widening very substantially for top-grade issues.

We all know that corporate bond prices fluctuate over a rather wide range over a period of years. The average banker makes no mistake if he decides to avoid corporate bonds entirely. If he does buy them, he should recognize the inevitability of price fluctuations and should buy only issues and amounts that he is willing to hold on a permanent basis. A bank which is in a strong financial position has no reason to worry about market depreciation in a reasonable commitment of high-grade corporate bonds. If the bank is not in a strong financial position and if its holdings of corporate bonds are excessive or if they are not of highest quality, then these holdings should be reduced or eliminated entirely.

Eliminating Undesirable Holdings

How and when should holdings be eliminated which do not conform with your objectives with respect to maturity distribution, quality and proper diversification? The answer to that question may depend entirely upon the financial position of the individual bank. If you cannot afford the risk, there is little choice but to sell now. If the risk in these undesired holdings is not of serious proportions for your bank, your policy regarding them may depend to some extent upon your confidence in your own or someone else's opinion regarding their future. This much, however, should be said: postponement of action may prove to be costly. As a general rule, it is desirable to make some start now toward eliminating undesired holdings and to plan to make steady progress toward their complete elimination within some specified period of time.

What should be your policy with respect to bond premiums, both with respect to buying bonds which are quoted at premiums and also with respect to the treatment of premiums after they are on your books? I wonder what percentage of all bankers are beset with directors who just don't like premiums. The old unreasoning prejudice against premiums dies hard. Today for many banks this has become a formidable problem.

The fact is, of course, that high premium issues have always acted just about as well marketwise as lower coupon issues and have frequently proven even more stable. Given the same change in yield, the higher premium issue will fluctuate less, not more, on a percentage basis, which is what really matters. During the past few years many bankers, trying to avoid premium bonds, have purchased long-term corporate and municipal securities that had no premiums instead of Treasury issues quoted at premiums. Some of these purchases now show a depreciation of 20 points or more. For these bankers, the prejudice against premium bonds has been a mighty costly proposition. The selection of issues to buy for a bank account should be made on the basis of quality, maturity and yield, not the size of the premium.

Regular amortization of bond premiums has now become a must. Until recent years many banks charged off premiums entirely at the time of purchase. Formerly some argument could be made for this practice on the grounds of "conservatism," but not so today, for with bond portfolios accounting for such a large part of total bank income, failure to amortize bond premiums at periodic intervals over the life of the bonds results in a serious distortion of the bank's true earnings picture.

What policy should you follow with respect to taking profits in securities? The average banker had better pause and ponder well before he realizes any more profits in his security holdings. Taking profits frequently results simply in writing up book values and reducing net income. A banker should think of securities in terms of income, not in terms of capital gains.

Supervising the Portfolio

The last three questions in the list refer to the supervision of your portfolio. With investments constituting more than two-thirds of the total earning assets of the average bank and contributing almost half of total earnings, it is obvious that the banker must give careful thought to the problem of adequate supervision over these assets. He should also establish definite procedures that he will invariably follow in analyzing and in checking with outside sources regarding any corporate or municipal bonds before he buys them. There are still some bankers who are sold securities by salesmen and who purchase bonds without adequate checking and without reference to previously formulated objectives and standards.

Finally, every banker should have a definite schedule for reviewing his entire investment situation at periodic intervals and for discussing his situation in detail with some disinterested outside source such as his correspondent bank. Your city correspondent, obviously, is by no means infallible. Nevertheless, it only stands to reason that men who devote their entire time to the study of bank investments and who have had years of experience in working with out-of-town banks on their investment problems, should be able to be of some assistance to the average banker in helping him to formulate his investment policies.

In conclusion, there is one point that I feel deserves special emphasis. It is this: You alone are responsible for the investment policies of your institution. This is a responsibility that cannot be shifted to anyone else. It is up to you to formulate your basic approach to investment policy, to analyze the investment requirements of your individual bank, to consult with competent outside sources, and then to establish your investment objectives. And it is up to you to see to it that these objectives are actually achieved.

As we all know, there is no book of rules that contains all the answers; there is no simple magic formula for achieving the best investment results. On the other hand, there is nothing mysterious or highly complicated about this matter of bank investments. What is needed most is the determination to adhere to the dictates of clear thinking and common sense.

Reappraising Your Bank's Investment Program

Your Basic Approach to Investment Policy

(1) Do you regard your investment portfolio as being primarily a means of adjusting your bank to a satisfactory position with respect to safety and liquidity and, insofar as circumstances permit, with respect to earnings as well?

(2) If not, what is your basic approach to investment policy?

(3) Do you plan to try to guess market swings or to invest on a permanent basis?

(4) In formulating your investment policies, will you give any weight whatever to your opinion regarding the future trend of bond yields?

(5) If so, what is your opinion at the present time and how much weight should be given to it in your investment program?

Your Bank's Circumstances

(6) How much risk of depreciation and losses might there be in your assets in relation to the protection afforded by your capital accounts?

(7) Is the risk in your loans likely to increase appreciably as the result of further loan expansion?

(8) What may be the extent of future fluctuations in your loans and in your deposits?

(9) Could you readily meet all deserving demands for credit in the event of a severe depression?

(10) Is a very high degree of market stability required for all of your investments or are you justified in regarding earnings as an important consideration?

(11) What is the outlook for your bank's earnings?

(12) In what ways should tax considerations affect your investment decisions?

Your Specific Investment Policies and Objectives

(13) What amount of cash and very short term securities should you have to cover possible demands for funds by borrowers and by depositors over the coming year?

(14) What should be your objectives with respect to the maturity distribution of your other investments?

(15) What should be your objectives with respect to quality?

(16) What should be your objectives with respect to diversification?

(17) What specific policies should you plan to follow in disposing of holdings which do not conform with these objectives?

(18) What should be your policy with respect to bond premiums?

(19) What should be your policy with respect to taking profits?

Supervising Your Portfolio

(20) What records and periodic studies do you need for investment supervision?

(21) What procedures will you follow in analyzing and in checking with outside sources regarding securities prior to purchase?

(22) What procedures will you follow for reviewing your investment requirements, for supervising your portfolio, and for conferring with outside sources?

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Government security prices continue to move in a very narrow range because the monetary authorities have put a "floor" under quotations. . . . The longest tap issues are "pegged" in the neighborhood of 101, with the most distant eligible obligation being held between 103.6 and 103.8. . . . The pressure is on to hold prices of Treasuries around current levels, with plenty of bonds being bought by the Central Banks and the Agencies in order to carry out this operation. . . . There seems to be little question in the financial district, over the ability of the authorities to maintain prices at levels which they consider beneficial to the money markets. . . . The restricted issues are not considered to be the problem that the longest eligible issues might turn out to be, especially if there should be changes in reserve requirements by the Congress. . . .

It is a bit surprising to traders and investors alike that the longest eligible bond has been held so long at the 103.7 level, since there appears to be no important reason for maintaining it at a premium over the longest tap issue. . . . Many still believe the "peg" will be lowered on the 2½s due Sept. 15, 1967/72 but the decline will be cushioned. . . .

REAPING THE HARVEST

Chairman Eccles of the Federal Reserve Board again stated his position on "Special Reserves" before the Congress, and at the same time strongly indicated the need for support of the government bond market, so that the 2½% rate for long-term Treasuries would not be violated. . . . At the present time this support of the market by the monetary authorities is getting them a big bundle of securities, because purchase of government bonds by the Federal Reserve Banks, since Nov. 5, when the operation first started, has amounted to more than $368,000,000 through Dec. 3. . . .

Out of the above total in excess of $294,000,000 were issues that are due in more than five years. . . . Treasury bonds are being fired into "Federal" in no uncertain manner because there is still plenty of "bearishness" around as far as the eligible governments are concerned. . . .

A HIGH PRICE

Purchases of the longer Treasuries by the Federal Reserve Banks, have been in increasing amounts each week, with more than $131,000,000 being taken on in the period ended Dec. 3, compared with $120,000,000 for the previous week. . . . Despite the credit restrictive measures of the authorities that are being carried out in order to limit the credit base, excess reserves of the system continue high because of the substantial gold inflow and the continued sale of Treasury obligations by the member banks in order to maintain reserves. . . .

The purchase by the Federal Reserve banks of more than $368,000,000 of government bonds, in less than a month, with the bulk of it in the last two weeks, adds to the inflationary pressure and thus offsets to a considerable extent the other credit tightening measures. . . . This is the price that is being paid in order to keep quotations of Treasuries stable. . . .

AND AGAIN

This is not the whole story as to the amount of bonds that were bought by the authorities in the month of November in order to stem the downward movement in prices of Treasury obligations. . . . Government trust accounts last month, according to some estimates, bought more than $200,000,000 of marketable issues, to help the cause of stability in the government market. . . . Purchases of outstanding Treasury obligations by the Agencies were small the early part of November but assumed very sizable proportions near the end of the month. . . . Commitments by government trust accounts do not add to the inflationary forces, because the funds that are used to buy outstanding marketable obligations come from taxes. . . . It is merely a shift of deposits. . . .

Altogether in the past month it is indicated that more than $600,000,000 was used by the powers that be in the operation of bringing to a halt the precipitous decline in prices of government bonds. . . .

COURSE OF PRICES

From Nov. 5, when the task was undertaken by the authorities to stop the sharp recession in prices of government obligations, quotations of the longest tap issue have gone down only about a quarter of a point, with the 101 level being held since about the 12th of last month. . . . During this same time the most distant eligible bond has declined from 104.30 to 103.7, with the latter quotation or "peg" being held since about Nov. 26. . . .

As to which issue has been bought more heavily by the monetary authorities is a matter of conjecture, although well informed sources believe that the bank bond has recently been sold in much larger amounts than the ineligible issues. . . . This is due to the feeling that lower prices will eventually be registered in the longer eligible securities. . . .

The State of Trade and Industry

(Continued from page 5)

ing to protect their names by searching out gray market dodgers make much dent in such transactions as long as demand continues far above available supply. The zeal of the steel producers is an answer to those who have claimed nothing was being done.

As was expected, tinplate producers have raised the price of tin mill products for the year 1948. Two months ago "The Iron Age" estimated that the price advance would be between $15 and $25 a ton.

Hot dipped tinplate carrying 1.25 lb of tin per 100 lb base box of tinplate has been advanced $17 a ton. Another grade of hot dipped material comprising a much smaller percentage of total tinplate shipped has been advanced $21 a ton. Electrolytic tinplate (thinner coatings than the hot dipped material) has been advanced $19 a ton. Canmaking quality black plate and special coated manufacturing ternes have been advanced $20 a ton. All of these increases will be effective Jan. 1, 1948.

Because tin mill products were not advanced last August increased steelmaking costs on this product has been absorbed by steelmakers for the past five months. No advance could be made before Jan. 1 because of annual contracts between tinplate makers and canmakers. Tinplate producers still may be taking some chance, the magazine states, because they have no idea of how much more steelmaking costs will advance during 1948.

Although total finished steel production this year will be 28.8% greater than a year ago automobile makers as a group will receive about 38.7% more steel than they were shipped in 1946.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 97.7% of capacity for the week beginning Dec. 8, 1947 unchanged from that of one week ago, 96.9% one month ago and 69.8% one year ago.

This week's operating rate is equivalent to 1,710,000 tons of steel ingots and castings unchanged from last week, 1,695,000 tons a month ago and 1,230,100 tons one year ago.

RAILROAD FREIGHT LOADINGS DROP 12.2%. DUE TO THANKSGIVING HOLIDAY

Loadings for the week ended Nov. 29, totaled 792,379 cars, according to the Association of American Railroads. This was a decrease of 110,333 cars below the preceding week due to the Thanksgiving holiday. However, they represented an increase of 131,428 cars or 19.9% above the corresponding week in 1946 when loadings were reduced substantially by labor difficulties in the coal fields and also the Thanksgiving holiday, and a decrease of 11,435 cars, or 1.4% below the same week in 1945, which did not include the Thanksgiving Day holiday.

ELECTRIC OUTPUT AT NEW ALL-TIME HIGH RECORD

The amount of electrical energy distributed by the electric light and power industry for the week ended Dec. 6, 1947 reached a new record high figure, amounting to 5,217,950,000 kwh., according to the Edison Electric Institute. This compares with 4,983,439,000 kwh. produced in the preceding week, which included the Thanksgiving Day holiday, and was an increase of 11.7% over the 4,672,712,000 kwh. turned out in the corresponding week in 1946. The previous high production figure was 5,180,496,000 kwh., reached for the week ended Nov. 22, 1947.

AUTOMOTIVE OPERATIONS FALL WITH SUSPENSION OF DODGE TRUCK OUTPUT AND SLIGHT PRODUCTION DECLINES BY OTHERS

Car and truck production in the United States and Canada last week touched an estimated 109,728 units compared with 115,197 in the week prior to Thanksgiving, states "Ward's Automotive Reports." The lower volume was due in large part to suspension of Dodge truck operations Monday night, combined with slight declines in output by other members of the "big three."

Last week's figure included 84,549 passenger cars and 20,205 trucks built in the United States and 3,827 cars and 1,147 trucks in Canada. In the corresponding week last year 93,907 vehicles were made, while in the like 1941 week output was 92,205. The revised total for last week's four working days was 84,391, according to "Ward's."

The preliminary estimate of November production is 419,621 units compared with 460,527 in the previous month and 380,460 in November, 1946.

BUSINESS FAILURES DROP TO LOWEST LEVEL SINCE EARLY SEPTEMBER

Declining in the week ending Dec. 4, commercial and industrial failures fell off to the lowest number registered in any week since the first of September. Dun & Bradstreet, Inc., reports 60 concerns failing as compared with 72 in the preceding week and 37 in the corresponding week of 1946.

While failures were up sharply from last year's level, they were only a fifth as numerous as in the same week of prewar 1939 when businesses failing totaled 297.

The larger failures involving liabilities of $5,000 or more accounted almost entirely for the week's decline. Down from 62 a week ago to 51 this week, they continued to be about twice as heavy as in the previous year when only 28 failed with losses of $5,000 or more. Small failures under $5,000 remained low, numbering nine against 10 last week and nine in the same week a year ago.

Fewer concerns failed in all industry and trade groups except retailing. In this latter group failures increased from 20 to 24, exceeding those in the comparable week of 1946 by a margin of four to one.

The Middle Atlantic States claimed over a third of the week's total failures, representing the only district in which failures were more numerous than in the previous week. No other region had half as many failures.

BUILDING PERMIT VALUATIONS ESTABLISH RECORD FOR OCTOBER

Rising for the fifth month in succession, building permit values in October in 215 cities of the United States reached the sum of $325,882,167, the largest October volume on record, according to Dun & Bradstreet, Inc. With the exception of March, 1946, it exceeded the total for any other month since March 1929. The October figure increased 6.0% over September's $307,560,440 and contrasted with the October, 1946 valuations of $171,213,237, representing a rise of 90.3%.

FOOD PRICE INDEX HITS NEW ALL-TIME HIGH

A further rise of 11 cents, following sharp advances in the three preceding weeks, pushed the Dun & Bradstreet wholesale food price index to a new all-time high of $7.17 on Dec. 2. Up 1.6% over $7.06 a week ago, the current figure represents a rise of 0.7% above the previous peak of $7.12 recorded on Sept. 16, 1947. The latest index shows a gain of 12.2% over a year ago when it stood at $6.39.

DAILY WHOLESALE COMMODITY PRICE INDEX DEVELOPS MIXED TREND

Mixed movements marked the course of the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., in the past week. After rising to a new postwar high of 301.45 on Nov. 28, the index dropped sharply to 298.02 on Dec. 2. This compared with 297.49 a week earlier and with 240.39 on the like date a year ago.

Grains were irregular with wide fluctuations featuring active trading on the Chicago Board of Trade last week. All deliveries of wheat advanced to new high marks for the season.

The December contract at the top sold at $3.20¼ a bushel, the highest since the all-time peak of $3.25 established on May 11, 1917. Bullish influences included reports of insufficient moisture in winter wheat areas and a lack of selling pressure. Reports of a growing scarcity of food in Europe was likewise a feature. Government buying of wheat and flour showed some decline from recent weeks. Strength in corn reflected limited country offerings of the cash grain and the growing scarcity of feed grains.

Domestic flour business was only moderate with export buying fairly active in the early part of the week. Cocoa prices trended downward due to a falling off in demand for actuals from manufacturers.

Despite a sizable increase in receipts, hog prices moved higher in the week, as did those for cattle and sheep. All deliveries of lard futures sold at new seasonal high prices, aided by an aggressive demand for cash lard.

With all the active futures contracts rising to new high ground for the season, spot cotton in the New York market advanced sharply with final quotations showing a net gain of 90 points for the week.

Trading was active and total sales in the ten spot markets during the holiday week amounted to 297,500 bales, compared with 369,500 in the previous week and 150,400 in the corresponding week a year ago.

The tight domestic supply position was an underlying factor in the rise. Trade demand was active with considerable buying attributed to mills covering against textile sales and exports and to fears that this year's crop might fall below 11,000,000 bales due to recent unfavorable weather.

Demand for cotton textiles remained strong. Offerings for nearby delivery were very limited and mills were generally reported well sold into next year.

Business in the Boston raw wool market continued rather dull with trading confined largely to numerous sales of small lots of scoured and grease off wools. Imports of wool received at Boston, New York and Philadelphia in the week ended Nov. 21 were 4,173,900 clean pounds as compared with 7,144,800 the week previous. The largest percentage of imports originated in Argentina.

RETAIL AND WHOLESALE TRADE ADVANCES ON CHRISTMAS BUYING

The holiday spirit continued to be evident in stores as consumers increased their purchases of gifts and seasonal merchandise. Retail volume in the week rose moderately above that of the preceding week and remained well above that of the corresponding week a year ago, according to Dun & Bradstreet, Inc., in its current review of trade. In some areas there was an increase in the buying of luxury items; generally consumers preferred moderately priced items of good quality.

A very slight decline in the demand for food occurred following the Thanksgiving Day holiday, but volume remained at a very high level. Poultry and staple groceries were steadily purchased with fresh fruits and vegetables continuing in large demand.

Heavy Winter clothing aroused some enthusiasm from consumers the past week.

Men's suits, topcoats and sportswear sold well, although the volume of men's clothing and furnishings was generally slightly below that of a year ago.

Practically all types of toys and gift items were sought by consumers last week. Home furnishings, small electrical appliances, and floor coverings were steadily purchased. Hardware, building materials and automobile supplies and equipment were in large demand and in some areas hunting equipment continued to sell well.

Retail volume for the country in the period ended on Wednesday of last week, was estimated to be from 10 to 14% above that of a year ago. Regional estimates exceeded those of a year ago by the following percentages: New England 9 to 13, East and Northwest 7 to 11, South 8 to 12, Middle West 13 to 17, Southwest 10 to 14 and Pacific Coast 15 to 19.

Wholesale volume rose slightly in the week and remained moderately above the level of the similar week of last year.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Nov. 29, 1947, increased by 10% from the like period of last year. This compared with an increase of 9% in the preceding week. For the four weeks ended Nov. 29, 1947, sales increased by 10% and for the year to date increased by 8%.

Christmas shopping here in New York last week moved at a more accelerated pace, bringing department sales volume up to last year's figure. Present indications point to substantial gains over 1946 business.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Nov. 29, 1947, increased 1% above the same period last year. This compared with an increase of 5% in the preceding week. For the four weeks ended Nov. 29, 1947, sales increased 5% and for the year to date rose by 10%.

Economic Outlook and What to Do About It

(Continued from page 15)

income then available. This, according to the Department of Agriculture, will mean meat prices that may be somewhat higher than the average for 1947, provided—always that word, "provided."

The question in this case seems to boil down to the forecast for national income. If national income holds up next year, the quotient will be as indicated by the government, prices probably a little higher than 1947.

This digression into the meat industry I make simply to provide an illustration.

It should not be forgotten that the kind of increase which occurred in 1947 in the prices of meat products represented a restoration of something like the normal relationship with national buying power, an upward adjustment from levels that had been held down by ceilings and subsidies. Any rise in 1948 that can be classed within the field of reasonable expectation would be extremely small by comparison.

Present Boom Vulnerability

This leads to a final point. We have probably gone through the early stages of reconversion, into the true secondary postwar boom period, without the precipitous price collapse which characterized 1920-21. We are, however, in a stage of the boom where vulnerability is great and where some of the sustaining forces are becoming increasingly precarious. A collapse of foreign demand or even a sudden phychological swing toward extreme caution with respect to inventories, commitments, or future plans, could give rise to a reversal of the price movement at almost any time. It should not be forgotten, moreover, that high prices themselves are one of the most effective cures of rising prices; it builds up buying resistance, mops up more purchasing power, and those who are not sharing in the benefits of the price increases find it necessary to curtail their purchases.

I think we are in this kind of a boom, not in an intermediate phase of a runaway spiral of inflation headed for the moon. I feel confident in making this statement partly because of the point made earlier—that our government has finally recognized and begun to show signs of adopting a counter-inflationary policy.

Also, we should remember that world conditions, particularly as respects food, are subject to rapid changes. I have heard it said that if Europe had had good wheat weather last summer and the United States good corn weather (a purely weather phenomenon), we would now be concerned over agricultural surpluses rather than scarcities.

Another temporary factor has been the rash of soldiers' bonus payments and settlement of terminal leave bonds.

One has to grant the virility of the wage spiral, especially as long as we have John L. Lewises with us, but while businessmen have been getting weaker and weaker in resisting of late, the workers are learning it's not genuine, but fool's gold.

And these three phenomena—*weather, bonuses and wages*—just about sum up the price bulge this fall.

With Paul H. Davis & Co.

(Special to The Financial Chronicle)

CHICAGO, ILL.—Earl C. Jockish has become affiliated with Paul H. Davis & Co., 10 South La Salle Street, members of the New York and Chicago Stock Exchanges. He was formerly with Wayne Hummer & Co. and Goodbody & Co.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Dec. 14	97.7	97.7	96.9	69.8
Equivalent to—					
Steel ingots and castings produced (net tons)	Dec. 14	1,710,000	1,710,000	1,675,700	1,230,100
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Nov. 29	5,257,250	5,275,300	5,274,250	4,794,570
Crude runs to stills—daily average (bbls.)	Nov. 29	5,309,000	5,229,000	5,224,000	4,699,000
Gasoline output (bbls.)	Nov. 29	16,667,000	16,138,000	15,926,000	15,289,000
Kerosine output (bbls.)	Nov. 29	2,324,000	2,192,000	1,903,000	1,888,000
Gas oil and distillate fuel oil output (bbls.)	Nov. 29	6,382,000	6,574,000	6,793,000	5,354,000
Residual fuel oil output (bbls.)	Nov. 29	8,405,000	8,447,000	8,364,000	7,693,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Nov. 29	86,319,000	84,777,000	82,092,000	88,619,000
Kerosine (bbls.) at	Nov. 29	20,619,000	21,218,000	22,566,000	20,666,000
Gas oil and distillate fuel oil (bbls.) at	Nov. 29	61,988,000	62,646,000	62,749,000	68,464,000
Residual fuel oil (bbls.) at	Nov. 29	56,747,000	56,774,000	57,259,000	58,371,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Nov. 29	792,339	902,672	940,746	660,91[illegible]
Revenue freight rec'd from connections (number of cars)	Nov. 29	706,018	733,139	743,195	617,94[illegible]
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction	Dec. 4	$214,014,000	$116,802,000	$97,298,000	$105,388,000
Private construction	Dec. 4	137,329,000	49,693,000	46,867,000	71,109,000
Public construction	Dec. 4	76,685,000	67,109,000	50,431,000	34,279,000
State and municipal	Dec. 4	55,860,000	55,680,000	41,228,000	28,688,000
Federal	Dec. 4	20,825,000	11,429,000	9,203,000	5,591,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Nov. 29	12,090,000	*13,300,000	12,850,000	2,038,000
Pennsylvania anthracite (tons)	Nov. 29	1,057,000	1,213,000	937,000	1,160,000
Beehive coke (tons)	Nov. 29	133,500	*138,400	142,900	9,800
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Nov. 29	367	*395	313	334
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Dec. 6	5,217,950	4,983,439	5,057,455	4,672,712
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Dec. 6	60	72	72	37
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Dec. 2	3.18925c	3.18925c	3.18925c	2.70711c
Pig iron (per gross ton)	Dec. 2	$36.96	$35.96	$36.96	$23.13
Scrap steel (per gross ton)	Dec. 2	$40.25	$40.58	$41.50	$25.00
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Dec. 3	21.200c	21.200c	21.200c	19.275c
Export refinery at	Dec. 3	21.525c	21.550c	21.425 c	18.175c
Straits tin (New York) at	Dec. 3	80.000c	80.000c	80.000c	70.000c
Lead (New York) at	Dec. 3	15.000c	15.000c	15.000c	11.800c
Lead (St. Louis) at	Dec. 3	14.800c	14.800c	14.800c	11.650c
Zinc (East St. Louis) at	Dec. 3	10.500c	10.500c	10.500c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Dec. 9	101.84	101.86	102.39	103.68
Average corporate	Dec. 9	111.07	111.62	113.31	116.41
Aaa	Dec. 9	116.02	116.61	118.20	120.84
Aa	Dec. 9	114.08	114.85	116.80	119.00
A	Dec. 9	110.34	111.62	113.31	116.22
Baa	Dec. 9	104.14	104.31	105.69	109.97
Railroad Group	Dec. 9	105.86	106.74	107.98	112.19
Public Utilities Group	Dec. 9	112.75	113.50	115.04	117.40
Industrials Group	Dec. 9	114.46	115.04	117.00	119.82
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Dec. 9	2.38	2.37	2.34	2.26
Average corporate	Dec. 9	3.11	3.08	2.99	2.83
Aaa	Dec. 9	2.85	2.82	2.74	2.61
Aa	Dec. 9	2.95	2.91	2.81	2.70
A	Dec. 9	3.15	3.08	2.99	2.84
Baa	Dec. 9	3.50	3.49	3.41	3.17
Railroad Group	Dec. 9	3.41	3.35	3.28	3.05
Public Utilities Group	Dec. 9	3.02	2.98	2.90	2.78
Industrials Group	Dec. 9	2.93	2.90	2.80	2.66
MOODY'S COMMODITY INDEX	Dec. 9	456.0	456.7	4[illegible].8	370.7
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUP—1935-39=100:					
Foods	Dec. 6	237.4	235.3	228.5	216.9
Fats and oils	Dec. 6	282.0	287.6	248.3	263.8
Farm products	Dec. 6	272.9	268.6	256.6	232.4
Cotton	Dec. 6	339.2	336.6	307.8	294.1
Grains	Dec. 6	310.9	311.8	291.9	197.8
Livestock	Dec. 6	258.9	252.1	245.0	238.9
Fuels	Dec. 6	198.2	198.2	196.2	157.6
Miscellaneous commodities	Dec. 6	178.9	179.4	174.1	161.5
Textiles	Dec. 6	224.6	223.1	217.2	210.8
Metals	Dec. 6	159.3	159.4	159.5	136.3
Building materials	Dec. 6	236.4	236.4	232.5	207.0
Chemicals and drugs	Dec. 6	157.1	157.1	154.5	153.3
Fertilizer materials	Dec. 6	136.8	136.8	136.3	122.4
Fertilizers	Dec. 6	140.6	140.6	136.9	125.6
Farm machinery	Dec. 6	129.3	129.3	128.3	116.7
All groups combined	Dec. 6	219.1	218.1	212.7	191.3
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Nov. 29	171,580	165,882	192,927	153,574
Production (tons)	Nov. 29	170,175	182,964	182,029	162,353
Percentage of activity	Nov. 29	93	102	100	94
Unfilled orders (tons) at	Nov. 29	420,456	418,582	436,178	545,042
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Dec. 5	150.7	151.0	148.4	150.3
WHOLESALE PRICES—U. S. DEPT. LABOR—1926=100:					
All commodities	Nov. 29	159.8	159.2	157.4	139.1
Farm products	Nov. 29	190.3	188.6	187.7	170.[illegible]
Foods	Nov. 29	178.3	178.8	173.8	163.[illegible]
Hides and leather products	Nov. 29	203.3	200.4	195.9	165.0
Textile products	Nov. 29	144.7	144.0	142.7	130.[illegible]
Fuel and lighting materials	Nov. 29	119.1	118.7	118.3	95.8
Metal and metal products	Nov. 29	151.3	151.3	151.3	131.8
Building materials	Nov. 29	187.2	186.1	185.2	144.3
Chemicals and allied products	Nov. 29	138.0	136.5	127.8	123.[illegible]
Housefurnishings goods	Nov. 29	134.8	134.7	133.4	118.3
Miscellaneous commodities	Nov. 29	118.7	118.1	117.2	106.7
Special groups—					
Raw materials	Nov. 29	177.9	176.7	175.9	154.[illegible]
Semi-manufactured articles	Nov. 29	157.1	156.1	154.6	130.2
Manufactured products	Nov. 29	152.5	152.2	150.0	134.1
All commodities other than farm products	Nov. 29	153.1	152.7	150.8	132.3
All commodities other than farm products and foods	Nov. 29	142.6	142.0	140.9	121.1

*Revised figure.

	Latest Month	Previous Month	Year Ago
ALUMINUM (BUREAU OF MINES):			
Production of virgin aluminum in the U. S.—Month of July	47,998	46,259	35,750
Stocks of aluminum (end of July)	78,054	73,893	------
CONSUMERS PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES 1935-39=100—As of September 15:			
All items	163.8	160.3	145.9
All foods	203.5	196.5	1[illegible]4.1
Cereals and bakery products	157.8	155.7	137.3
Meats	240.6	228.4	188.5
Dairy Products	195.2	183.8	186.0
Eggs	235.9	212.3	193.3
Fruits and vegetables	198.2	199.8	176.4
Beverages	187.0	181.7	162.0
Fats and oils	176.6	178.5	151.4
Sugar and sweets	181.1	179.8	141.5
Clothing	187.6	185.9	165.9
Rent	117.6	111.2	108.8
Fuel, electricity and ice	124.6	123.8	114.4
Gas and electricity	92.1	92.0	91.7
Other fuels and ice	156.3	154.8	136.5
Housefurnishings	187.5	184.2	165.6
Miscellaneous	140.8	139.8	129.9
CONSUMER PURCHASES OF COMMODITIES—DUN & BRADSTREET, INC. (1935-1939=100)—Month of October	280.4	272.2	249.5
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM — 1935-39 Average=100)—Month of November:			
Adjusted for seasonal variation	300	*275	271
Without seasonal adjustment	372	*298	336
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. 1935-39 AVERAGE=100—Month of October:			
Sales (average monthly), unadjusted	266	239	*215
Sales (average daily), unadjusted	252	244	*203
Sales (average daily), seasonally adjusted	223	234	179
Stocks, unadjusted as of Oct. 31	253	227	217
Stocks seasonally adjusted as of Oct. 31	224	210	192
EDISON ELECTRIC INSTITUTE:			
Kilowatt-hour sales to ultimate consumers—month of September (000's omitted)	18,495,696	18,099,123	16,357,524
Revenue from ultimate customers—month of September	$325,639,000	$315,590,400	$288,151,300
Number of ultimate customers at Sept. 30	37,873,257	37,626,367	35,647,321
GRAY IRON CASTINGS (DEPT. OF COMMERCE) Month of September:			
Shipments (short tons)	1,025,089	951,859	737,401
For sale (short tons)	590,702	550,961	540,649
For producers' own use (short tons)	434,387	400,898	396,752
Unfilled orders for sale at end of month (short tons)	2,679,858	2,631,273	2,897,105
LIFE INSURANCE — BENEFIT PAYMENTS TO POLICYHOLDERS — INSTITUTE OF LIFE INSURANCE—Month of September:			
Death benefits	$108,179,000	$101,415,000	$93,979,000
Matured endowments	30,167,000	28,367,000	28,773,000
Disability payments	7,269,000	6,358,000	7,334,000
Annuity payments	17,795,000	17,574,000	16,964,000
Surrender values	30,640,000	29,457,000	25,433,000
Policy dividends	42,364,000	35,218,000	38,415,000
Total	$236,414,000	$218,389,000	$210,898,000
METAL OUTPUT (BUREAU OF MINES)—Month of September:			
Mine production of recoverable metals in the U.S.			
Copper (in short tons)	70,916	*72,099	‡50,196
Gold (in fine ounces)	192,441	*203,276	‡125,296
Lead (in short tons)	29,665	*29,895	‡27,706
Silver (in fine ounces)	2,727,794	*2,860,498	‡1,814,853
Zinc (in short tons)	47,679	*48,306	‡47,149
NEW BUSINESS INCORPORATIONS—DUN & BRADSTREET, INC.—Month of Oct.	9,609	8,561	10,799
NON-FERROUS CASTINGS (DEPT. OF COMMERCE)—Shipments Month of September:			
Aluminum (thousands of pounds)	35,877	30,441	34,563
Copper (thousands of pounds)	83,158	75,060	92,367
Magnesium (thousands of pounds)	518	523	873
Zinc (thousands of pounds)	32,727	28,135	33,992
Lead die (thousands of pounds)	1,241	1,000	1,228
PORTLAND CEMENT (BUREAU OF MINES)—Month of August:			
Production (bbls.)	17,460,000	16,342,000	16,213,000
Shipments from mills (bbls.)	20,362,000	20,099,000	17,955,000
Stocks (at end of month) (bbls.)	10,455,000	*13,337,000	9,308,000
Capacity used	86%	80%	79%
RAILROAD SELECTED INCOME ITEMS OF U. S. CLASS I RYS. (Interstate Commerce Commission)—Month of August:			
Net railway operating income	$80,824,826	$60,958,447	$81,855,563
Other income	14,228,841	16,589,285	15,351,019
Total income	95,053,667	77,547,732	97,206,582
Miscellaneous deductions from income	3,445,697	2,875,943	2,880,093
Income available for fixed charges	91,607,970	74,671,789	94,326,489
Income after fixed charges	55,083,092	40,322,812	56,570,778
Contingent charges	3,739,746	3,297,828	3,068,499
Net income	51,343,346	37,024,984	53,502,279
Depreciation (way & structures & equip.)	29,578,939	29,444,900	28,476,358
Amortization of defense projects	1,354,223	1,346,250	973,152
Federal income taxes	30,738,444	21,322,717	13,817,849
Dividend appropriations:			
On common stock	17,280,446	3,524,813	17,168,139
On preferred stock	4,318,989	1,365,765	4,145,941
Ratio of income to fixed charges	2.51	2.17	2.50
STEEL CASTINGS (DEPT. OF COMMERCE)—Month of September:			
Shipments (short tons)	137,457	120,405	126,471
For sale (short tons)	102,913	88,719	90,567
For producers' own use (short tons)	34,544	31,686	35,904
Unfilled orders for sale at end of month (short tons)	526,229	478,649	380,589
TRAILER COACHES—HOUSING, TYPES ONLY (DEPT. OF COMMERCE)—Month of Sept.:			
Production (number of units)	6,986	6,741	4,864
Shipments (number of units)	6,925	6,523	4,791
Shipments (value of)	$11,634,920	$10,859,515	$7,865,126
TRUCK TRAILERS (DEPT. OF COMMERCE)—Month of September:			
Production (number of units)	3,213	*3,169	6,578
Shipments (number of units)	4,005	*3,724	6,207
Shipments (value in dollars)	$10,466,291	*10,114,765	$12,594,963

*Revised figure. ‡Monthly average in year 1946.

Let's Stay Free

(Continued from page 12)

and without violating the fundamental principles of our free society or jeopardizing our political and economic future.

Do We Need New Controls?

We are being told that the situation we are facing as a nation is so critical that it requires the restoration of at least some of the wartime controls. The same groups who two years ago were predicting 10,000,000 unemployed and troublesome surpluses are now loudly demanding rationing and bureaucratic control of prices. There is reluctant mention of wage control and the control of farm prices but, like certain facts of life, these are not being discussed openly and frankly. All students of the problem know that even with well-policed rationing there can be no effective price control of farm products without subsidies, or effective control of the price of manufactured products without an equally rigid control of wages. Rationing will not increase the supply of goods available. It is a device to distribute goods according to a pattern determined by political planners rather than by the American public's vote as customers. Rationing will not give us one more bushel of wheat to eat, one more ton of steel to use, one more suit of clothes to wear. On the contrary, the very fact of rationing of even a few commodities may well importantly reduce the production of those commodities within a brief period of time. One certain result of rationing would be that a big percentage of Americans would be queueing up to obtain their reduced share of available goods rather than working to produce more. We would have more regulations and paper work, less goods and services.

The dangers of rationing and price control are being dramatically demonstrated in France today, where rationing and price controls imposed on food have resulted in the black markets, on the one hand, and a reduction of food supply, on the other — because the farmers will not sell their food for money with which they cannot buy the manufactured goods they need. The result is that the food is either eaten in larger quantities and hoarded on the farms or goes into black markets, while industrial production is hampered by underfed workers.

Rationing is no solution for the problem, since to partly reduce consumption through rationing will not satisfy the people in peacetime. It is self-defeating in that it tends to reduce production and available supply while inefficiently distributing an increasing shortage.

I am reminded of an incident that happened in Washington a little over two years ago. I had made the suggestion that the real way of avoiding inflation and high prices was to work temporarily more than 40 hours a week as a compromise between the wartime work-week of 48 hours and the prewar work-week of 40 hours. A prominent labor leader said to me in a small group that I was promoting unemployment of as many as 30,000,000 people. I good naturedly said, "You know better. You talk like a Communist. By the way, you've been in Russia; what do you think of their system?" He said, "Frankly, they have a marvelous system for equitably distributing nothing."

If there were no European relief problem, we might still face the threat of more inflation or a continuation of the wage-price spiral, due to the very real shortages created during the war and —perhaps even more importantly —due to the fact that we only paid, through taxes, approximately one-half of the cost of the war as we went. The balance of the cost was paid by issuing bonds. Holders of these bonds—in line with their stated value—have a call on the goods and services currently being produced in the same way that money currently being earned can be spent for these same goods and services.

Reduce Current Purchasing

Supply and demand always come into balance at a price in a free market. A combination of current earnings and wartime savings creates an ability to buy, which if exercised to its fullest extent, would greatly exceed the current ability to produce. Unless individuals, corporations, and all government units or agencies are willing to reduce their current purchasing, the pressure on prices is bound to continue. It is true that whatever aid we extend to Europe beyond the value of our imports importantly increases this inflationary pressure.

From the best information I can get, the immediate relief proposed for Europe is not substantially greater in relation to our national output than the value of the net exports to these same countries during the last two years. It is true that what we have been sending abroad is in part responsible for the price increases during the last two years.

The point has been made that even the maximum proposed under the Marshall Plan would not exceed 4% of the national production. It does not look like such a staggering amount stated that way, but even 4% in terms of work and production would mean an extra 1½ hours per week for all producers. The real trouble is the concentration on certain items such as wheat and steel, where considerably more than 4% of production is apparently required.

The situation reminds me of the story of the stranger who wanted to cross a river. He inquired of a native how deep the river was, and was told that it was an average of two feet deep—but the man drowned trying to cross the river!

World War I Inflation Greater

The inflation that has occurred during and since World War II is probably not as great as that which occurred in a comparable period during and after World War I. World War II lasted much longer and importantly involved more of the world than did the first World War. The debts incurred were in the order of 10 or 12 times as great. In other words, the inflationary pressures have been much greater but Americans have understood the problem and have handled them somewhat better than did their fathers a generation ago.

Following the first postwar round of wage increases, wages were again increased substantially last spring. As a result, there was a further increase in costs and prices. It was hoped at the time that a year's high production would reduce shortages and stabilize the country's economy by stopping the wage-price spiral. Perhaps there was some wishful thinking involved in the situation but these higher industrial wages cannot be held to be entirely responsible for the increase in the cost of living, particularly in food prices. They contributed to increased food prices only to the extent that they increased the demand. The reported crop failure and the continuing political demoralization in Western Europe, the delay in negotiating final peace treaties, the adverse weather which reduced our own corn and oats crops are the principal reasons for the increase in food prices during the last six months.

With this unfortunate world situation, perhaps we cannot immediately stop the inflationary trend, but we must all try. People instinctively fear inflation as they do a fever. In fact, inflation may be compared to a fever. It is a sign of economic ill health just as a temperature is an indication of disease or sickness in one's body. Inflation tends to dissipate the resources of a nation just as a temperature undermines the strength of an individual. A temperature, as all doctors know, is not a disease in itself. Wise doctors do not attempt to cure a temperature but to eliminate the causes of the temperature by curing the disease. Let's make sure that we do not contract the leprosy of Socialism or Communism by using measures intended to reduce the temporary temperature of inflation without curing the disease causing the temperature.

If the contemplated aid to Europe causes another important round of wage and price increases, it will be a great price to pay for the privilege of helping others. The ominous threat to our prosperity of more inflation has been called to our attention by President Truman, as well as by other political leaders of both parties. Many of us remember too well the depression, unemployment and hardships that occurred two or three years after the end of World War I, and which are generally conceded to have resulted from the inflation of that period. There is no reason why we have to repeat such an experience, but to avoid it requires political and business leadership of a high order.

Industrial managers cannot help being concerned about the position of employes in a period of inflation and being particularly sympathetic to their problems. Rising food, clothing and housing costs affect employes immediately. At the present time, no matter how much we succeed in increasing the output of industrial products that do not directly enter into the ordinary household budgets, these increases will not bring down living costs soon or fast, because the largest part of the recent increase in living cost has resulted from increased food costs. The people employed in industry cannot eat the steel, automobiles, typewriters or furniture they help to make. In a period of rising living costs, it is natural for them to expect wage adjustments necessary to keep them at least even with their ordinary prewar household budget costs. Based on their prewar experience it is perhaps natural to expect them also to want more than this—to have increases that will represent gains in their real standard of living at the prewar rate.

All of us, I am sure, want to see the living standards of workmen continue to increase. Since the end of the war, however, it has been impossible to raise real wages as rapidly as we did on the average before the war. During the war, the purchasing power of workmen was maintained and increased by working more than 40 hours. During and since the war, all our increase in productivity and more has been absorbed by the highest cost of government we have ever known. Thus, there has been nothing left over to increase living standards, especially since we promptly returned to the 40-hour week after the war. As a result, the two rounds of wage increases made since the war have seriously contributed to further price inflation.

Increased Income Without Increased Costs Needed

To increase income without increasing costs and prices is the only solution to the problem. For workmen to expect wage increases under present conditions that will provide important increases in living standards or, through such wage increases, to seek to shift all of the present high cost of government and the cost of our foreign relief program to others, will only contribute to a further increase in living costs for all.

We are still trying to clean up the aftermath of the greatest war in history—a war that required the diversion of a great deal of our productive facilities and efforts to non-productive purposes. We are still burdened with the highest cost of government in our history. Until the foreign nations are able to get along without so much of our help and until we succeed in reducing the high cost of government, real wages cannot be raised materially without working longer hours. Any attempt to raise wage rates at this time faster than the actual increase in hourly productivity will only add to further inflation.

Wage policies, however, are not the only important current considerations in employe relations. The security and stability of employment relations is of equal importance. There are two aspects to this matter of employment security—the protective and the progressive. Management must be concerned with both. The protective aspect consists of the development of sound employment and personnel plans and procedures that assure fair treatment in employment, job assignment and layoff, and in all other employment relations. It also includes assistance in protection against the ordinary hazards of personal existence through benefit plans such as life, health and accident insurance.

Stability of Employment and Income

Perhaps the most immediately important aspect of the protective phase of employment security is stability of employment and income. In a changing economy with new products and processes constantly displacing old ones and with customers' tastes and demands constantly changing, the problem of stabilizing employment and income of factory workers is complex. Internally, it requires far-sighted management analysis and planning of products, and production and distribution processes. Externally, it may involve customer or supplier practices or consumer customs. It is further complicated by many and frequently conflicting governmental and trade union policies. It is clearly not a simple task. However, progress is not made by simply saying that "nothing can be done." Within the area of management, much can be done. Furthermore, the possible benefits that will result from further progress in this field are more than worth the effort. To the extent that each management makes progress in employment stabilization within its own area of operation, progress will be made over the whole country.

In this connection attention should be called to two legal complications in the development of better plans and programs of employment and income stabilization. The first is that the present tax laws make it difficult to establish and operate plans that require the accumulation of reserves because these laws do not recognize reserves established for the operation of such plans as an ordinary operating business expense at the time they may be set up. Again, rigid provisions of the Wage-Hour Law with respect to the payment of overtime severely restrict the possibility for employment and income stabilization for many concerns. These laws should be modified so that they will promote instead of restrict constructive management efforts in this field.

The progressive aspect of employment security is that of opportunity for employees to progress and advance. There is no security in a changing world as great as that which comes from opportunity to qualify for a better job—to be given the chance to demonstrate one's greater economic and, hence, social worth. It is one of the responsibilities of management to develop the security of opportunity to its fullest, by keeping the door to advancement open to every worthy employee, and to do all we can to assist those who aspire to these opportunities. Only in this way will employees feel that progress is a matter of personal worth and effort, and be willing to make the effort to equip themselves for these opportunities in keeping with the best of our American traditions. In this way by improving their own position they contribute to the greater well-being of all.

Inflation and Profits

Just as workmen are worried by the high cost of living and are anxious about their personal economic security, businessmen and managers are worried by the high cost of business living and threats to business security. During a period of inflation, accounted profits must be above average to maintain industrial production, business activity and corresponding employment at high levels, because it takes more and more dollars to maintain the same amount of employment, the same physical inventories, and turn out the same amount of goods.

Likewise, improvements and replacements of plant and equipment cost more than the financial provisions made for them through depreciation and normally retained profits in the business. During such a period, the extra dollars required must come from increased profits or be obtained as additional new capital. The hazards of going into debt are just as great for business as they are for individuals. The only other alternative is to restrict the physical activity and employment in line with available capital in the business. This is basically the reason why no nation ever achieved prosperity through inflation.

The effect of the current inflation on the capital problems of industry is dramatically illustrated in a recent study by the Department of Commerce. It shows that the corporations of the nation as a whole had net earnings in the first half of 1947 of $8,400,000,000 and depreciation reserves of $2,000,000,000, or $10,400,000,000 all told, to finance their requirements. Out of these net earnings they paid $2,900,000,000 as dividends, or 35% of the total—about half the percentage usually distributed to stockholders. This left them $7,500,000,000 for carrying the higher costs of inventories and replacements of tools and equipment. But the actual costs of these two items required $11,000,000,000. So the nation's corporations used all their depreciation reserves and half the amount that ordinarily would be used to pay dividends and had to obtain another $3½ billion by borrowing from the banks or by selling securities.

Since rationing is neither a sound nor effective solution for threatened inflation we must continue to try to solve our present economic and political problems without surrendering our traditional liberties. This requires that we accept our individual responsibilities which go with these liberties. But in the fight against inflation government has the greatest responsibility, since the present inflation and the continued threat of more inflation have resulted directly from governmental policies, particularly tax and fiscal policies.

Jobs of Government

The first job of government is to make real progress in reducing the cost of government. This requires both an actual reduction in expenditures and an increase in the efficiency of government. In other words, fewer taxpayer

dollars must be spent and we must get better value for the dollars spent. In recent years all the progress made in increasing industrial productivity through the use of better tools and better arrangement of work has been more than absorbed in the higher cost of government. This trend must be reversed and our increased productivity devoted to raising the general standard of living of the whole country.

The second job of government is to adopt measures that will encourage the investment of private capital in productive enterprise, particularly in ways that will reduce industrial costs and prices. Tax reforms are required to accomplish this.

The third job of government is to render every assistance it can to help people to be more efficient by eliminating every regulation and law that impedes production and distribution and thus unnecessarily raises costs.

The government must cease supporting special interest groups that require employers and their customers to pay for work not performed or to pay excess prices for goods and services.

For example, the 40-hour week is a heritage of the days of planned scarcity, of plowing under cotton, and killing pigs to raise prices. It is a job-rationing measure. The penalty for extra hours of work interferes with the rights of many, particularly of lower paid and unskilled workers, to earn a better living. Today the situation clearly calls for a repudiation of these reactionary and inflationary policies.

Helping Problem of Shortages

But in our fight against inflation, we cannot leave it all to Congress and other agencies of government. As businessmen, managers and citizens, we have responsibilities to help solve the problem of shortages and to avoid additional inflation. To do our part, we should do the following things:

(1) *Keep Ourselves Out of Debt*—There has never been an unsound boom that was not financed by unsound credit. Only by living within our means can we help the country and ourselves. As a nation we already are deeply in debt. That debt is a first mortgage on the future of every family. We cannot justify second mortgages to buy luxuries.

(2) *Avoid Speculation*—The future of each of us is speculative enough without adding to our problems and our nation's problems by speculation based on the idea that we are in a never-ending boom, or that we will be smart enough to get out before the crash. That sort of speculation will only guarantee a crash.

(3) *Insist On A Reduction in the Cost of Government* — Even we as a nation are not rich enough to go on forever with government costs that take more than a quarter of all the wealth that we produce. The question is not whether any particular government activity is desirable independent of cost. The question is simply: Is it worth what it costs and can we afford it? This must be our test.

(4) *Insist That Our Foreign Trade Be On A Two-Way Basis*—Without questioning the need to contribute help this winter to the desperate peoples abroad, the fact remains that relief that fails to create profitable employment opportunities will only add to later despair. These nations cannot afford to remain continuously on a charity basis with us. Nor can we long afford to be almoners to the world. Our foreign aid must be predicated on rehabilitation and work so that within a reasonable time our friends may pay us with the things they produce in equal value for the things they need from us.

(5) *Conserve Our Spending At Home*—One of the certain signs of inflation is steadily rising prices as we spend too freely the surplus money we created during the war. In that direction lies disaster. Only as we restrain ourselves—only as we postpone unnecessary buying—will we do our part in checking the spiral of inflation.

(6) *Keep Our Costs and Prices Down*—All of us should know by now that simply raising all wages faster than our production increases only raises costs and prices. Ninety per cent of the national income, including money collected as taxes and spent by government, ultimately is paid out as wages and salaries. The other 10%, on the average, must be left in the system to provide the incentive to make it work. No nation can ever get rich—it can only get poor — by paying more for producing less.

(7) *Temporarily Work Longer*—The present high cost of government means that on the average a person working 40 hours a week is working more than 10 hours to support government and less than 30 hours to support himself and his family. While this situation exists and we are trying to make up the shortages created by the war, all of us must work longer and harder if we are to achieve the postwar prosperity and standard of living which we hoped for and dreamed about during the war.

(8) *Control and Reduce Inventories*—Inventories in total have been increasing ever since the war ended. The pipe lines should now be full and goods should now be coming out in direct proportion to the raw materials going in. Lower inventories will reduce the impact on business and employment of any future adjustments that may be required when we have made up the shortages created by the war. To keep inventories down and increase turnover is a particularly sound job for all businessmen at the present time.

(9) *Avoid Waste*—In this period of shortages of all kinds it is particularly important that all of us do everything we can, both in our business and personal affairs, to avoid wasting anything of value —food, fuel, materials and time. The slice of bread, the bar of steel, the shovel of coal alone may seem too small to be worth saving. But there are more than 140 million Americans and these small savings, multiplied by the millions, will amount to a total that will be a real help.

(10) *Increase Productivity*—Increasing our productivity is an absolute requirement if we are to check inflation. We must increase our output per machine, per hour, per dollar and per acre. This will give us more goods at less cost. It is the only way we can get lower prices without lowering wages. Our prewar rate of progress in this regard was a little less than 3% a year. This progress may seem slow but it means that, on the average, each generation has had twice as much as their fathers did 25 years before. Nowhere else in the world has any nation achieved and maintained such a rate of increase in the standard of living of its people. I see no reason why this marvelous progress cannot be continued for the next 100 years if we preserve our free institutions and promote the initiative of the millions.

While the problems our nation faces are large and important, they can be solved in the same way we produce an automobile or any other item produced by mass production. Essentially this consists of breaking down the whole into small pieces which can be efficiently handled by the worker on the job. Thus, each of us by devoting his efforts to his own particular job will accomplish the most not only for himself but will thereby assist solving the problem of the whole country. General Campbell, Chief of Ordnance during the war, made this same point when he was facing a big, tough war production job. He told us one day in Detroit that the only way to eat an elephant was to cut it up in small pieces and get a lot of people chewing at it.

None of us would seriously claim that our country is perfect and cannot be improved. But when we imagine that there is a short cut to the millennium through substituting governmental control and centralized authority for self-reliance and individual responsibility, we are falling into the ancient Old World delusion which, for over 6,000 years, has stagnated human progress and kept the vast majority of people underfed, underclothed, embroiled in wars and surrounded by famine and pestilence.

So I hope you all agree with me when I say "Let's Stay Free."

Gold, Silver, Diamonds Versus Declining Money Value

(Continued from page 8)

a point where it is difficult to get a Frenchman to accept them at any price. They are probably worth about one-third of a cent. This means that it takes about 300 francs to buy one American dollar.

Up until World War II, the British pound has been the standard currency of the world, and it has sold for nearly $5 in American currency. During World War II, it fluctuated from $2 to $3, according to the fate of the British Navy or Army. After World War II, the pound was theoretically stabilized at $4.03 in American dollars. Apparently, however, this is a fictitious amount, as illustrated by the following incident.

Some English interests have been endeavoring to purchase two Gloucester trawlers. After long negotiations (the British are wonderful traders) a price was agreed upon. The owners, naturally expected to get dollars, but upon going to England to get the money, were told they must be paid in pounds. When my Gloucester friends returned to New York they found they could get only $2.75 in American dollars for these British pounds. This did not happen years ago; moreover, it did not happen in China, Germany, or even France. It happened last week in New York City.

I believe in the United States. All I have I owe to the United States, and I am ready to give my fortune and life to the United States. But, I am unfair to my clients and readers not to frankly call to their attention what is happening all over the rest of the world, and what MAY happen in the United States. Certainly, our dollar, like the money of all other countries throughout the ages, will gradually decline in purchasing power. How far this will go, nobody knows.

What can we do to protect ourselves? First, we can work to reduce the U. S. Government debt and increase the U. S. production of goods through better work and new inventions. When talking with clients and refugees from other countries, they emphasize the importance of every family owning more real things, including a small home away from bombing danger with fertile land, fuel and other useful commodities, together with a few jewels, especially gold, diamonds and silver. Whether I talk with a German or Chinaman, a Frenchman or Englishman, they are unanimous in the opinion that gold, diamonds and silver are the only things which, at all times, are worth something, everywhere. Hence, these are known as "emergency money."

Remember, I am not recommending new diamonds or anything else as investment for profit. Almost everything looks too high to me. But as "emergency money and real enjoyment" husbands might consider buying their wives a good diamond ring for a Christmas gift.

Federal Reserve October Business Index

The Board of Governors of the Federal Reserve System issued on Nov. 26 its monthly indexes of industrial production, factory employment and payrolls, etc. The Board's customary summary of business conditions was made public at the same time. The indexes for October together with a month and a year ago, follow:

BUSINESS INDEXES

1939 average = 100 for factory employment and payrolls;
1923-25 average = 100 for construction contracts;
1935-39 average = 100 for all other series.

	Adjusted for —Seasonal Variation—			Without —Seasonal Adjustment—		
	—1947—		1946	—1947—		1946
	Oct.	Sept.	Oct.	Oct.	Sept.	Oct.
Industrial production—						
Total	*189	186	182	*192	190	184
Manufactures—						
Total	*195	192	188	*198	196	191
Durable	*222	218	214	*224	219	215
Nondurable	*173	171	168	*177	177	172
Minerals	*154	153	145	*157	158	147
Construction contracts, value—						
Total	†	183	145	†	184	138
Residential	†	168	140	†	168	136
All other	†	195	148	†	197	140
Factory employment—						
Total	*156.4	155.7	149.1	*156.8	156.7	149.6
Durable goods	*180.9	179.1	173.8	*181.0	179.5	173.9
Nondurable goods	*137.1	137.3	129.7	*137.8	138.7	130.4
Factory payrolls—						
Total	---	---	---	†	337.2	292.8
Durable goods	---	---	---	†	372.8	328.1
Nondurable goods	---	---	---	†	302.4	258.3
Freight carloadings	145	142	139	156	153	149
Department store sales, value	*275	291	258	*298	299	278
Department store stocks, value	†	230	237	†	257	267

*Preliminary. †Data not yet available.

NOTE—Production, carloadings, and department store sales indexes based on daily averages. To convert durable manufactures, nondurable manufactures, and minerals indexes to points in total index, shown in Federal Reserve Chart Book, multiply durable by .379, nondurable by .469, and minerals by .152.

Construction contract indexes based on three-month moving averages, centered at second month, of F. W. Dodge data for 37 Eastern States. To convert indexes to value figures, shown in Federal Reserve Chart Book, multiply total by $410,269,000, residential by $184,137,000 and all other by $226,132,000.

Employment index, without seasonal adjustment, and payrolls index compiled by Bureau of Labor Statistics.

INDUSTRIAL PRODUCTION

(1935-39 average = 100)

	Adjusted for —Seasonal Variation—			Without —Seasonal Adjustment—		
	—1947—		1946	—1947—		1946
MANUFACTURES	Oct.	Sept.	Oct.	Oct.	Sept.	Oct.
Iron and steel	*204	195	184	*204	195	184
Pig iron	†	188	183	†	188	183
Steel	224	214	195	224	214	195
Open hearth	184	177	171	184	177	171
Electric	507	477	369	507	477	369
Machinery	*278	276	268	*278	276	268
Transportation equipment	*234	228	237	*234	228	237
Automobiles	*199	198	185	*199	198	185
Nonferrous metals and products	†	174	184	†	174	184
Smelting and refining	*176	182	168	*176	182	167
Lumber and products	*143	140	136	*150	150	142
Lumber	*130	128	127	*141	143	136
Furniture	*168	164	155	*168	164	155
Stone, clay and glass products	*203	203	200	*212	211	209
Plate glass	156	151	158	156	151	158
Cement	†	171	156	†	198	181
Clay products	*158	160	149	*166	166	158
Gypsum and plaster products	*225	221	212	*231	225	218
Abrasive and asbestos prod.	*227	229	241	*227	229	241
Textiles and products	*163	*158	169	*163	*158	169
Cotton consumption	139	130	155	139	130	155
Rayon deliveries	278	279	248	278	279	248
Wool textiles	†	*158	178	†	*158	178
Leather products	†	121	117	†	120	117
Tanning	†	120	97	†	118	98
Cattle hide leathers	†	131	103	†	128	104
Calf and kip leathers	†	103	78	†	101	80
Goat and kid leathers	†	94	67	†	95	67
Sheep and lamb leathers	†	118	141	†	115	141
Shoes	†	*121	130	†	*121	130
Manufactured food products	*155	158	146	*166	182	158
Wheat flour	*139	137	135	*147	150	143
Meatpacking	*140	146	115	*142	136	117
Other manufactured foods	*160	*163	154	*178	*195	173
Processed fruits and veg.	*142	153	167	*183	298	216
Paper and products	†	157	152	†	157	152
Paperboard	184	182	172	184	182	172
Newsprint production	91	97	85	91	97	85
Printing and publishing	*148	144	132	*151	145	135
Newsprint consumption	138	131	119	145	132	125
Petroleum and coal products	†	*202	*179	†	*202	*179
Gasoline	*162	162	145	*162	162	145
Coke	†	170	167	†	170	167
By-products	†	162	160	†	162	160
Beehive	*438	427	406	*438	427	406
Chemicals	*247	248	238	*250	249	240
Rayon	*295	295	257	*295	295	257
Industrial chemicals	*423	425	402	*423	425	402
Rubber products	*220	216	234	*220	216	234
MINERALS						
Fuels	*162	160	150	*162	160	150
Bituminous coal	*162	161	160	*162	161	160
Anthracite	*126	122	124	*126	122	124
Crude petroleum	*165	164	149	*165	164	149
Metals	†	111	111	†	144	126
Iron ore	---	---	---	†	298	252

*Preliminary. †Data not yet available.

FREIGHT CARLOADINGS

(1935-39 average = 100)

Coal	156	153	155	156	153	155
Coke	192	180	183	188	178	180
Grain	152	137	142	152	153	142
Livestock	104	105	128	161	139	197
Forest products	147	149	146	155	161	154
Ore	170	181	157	235	272	216
Miscellaneous	149	145	139	163	157	‡152
Merchandise, l.c.l.	75	73	79	78	77	82

‡Revised.

NOTE—To convert coal and miscellaneous indexes to points in total index, shown in Federal Reserve Chart Book, multiply coal by .213 and miscellaneous by .548.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• Acme Broach Corp., Ann Arbor, Mich.
Dec. 2, (letter of notification) 40,000 shares ($5 par) common. **Price**—$5 a share. **Underwriter**—Dean W. Titus and Co., Ann Arbor. To build factory, pay obligations and for working capital.

All American Industries, Inc., New York
Oct. 30 filed 100,000 shares ($1 par) common (name to be changed to American Steel & Pump Corp.) **Underwriting**—To be filed by amendment. Price by amendment. **Proceeds**—To pay off indebtedness incurred in the acquisition of the capital stock of A. D. Cook, Inc., Lawrenceburg, Ind.

American Bankers Insurance Co. of Florida, Miami.
Nov. 3 (letter of notification) 2,500 shares of class A (par $10) common, 5,000 shares ($10 par) class B common, and 11,250 shares 8% ($10 par) cumulative preferred. **Price**—$240 per unit, consisting of 2 shares of class A, 4 shares of class B and 9 shares of preferred. No underwriting. For capitalization of company to enter into stock fire insurance business.

American Box Board Co. (12/18)
Dec. 1 filed 100,000 shares ($1 par) common. **Underwriter**—Paine, Webber, Jackson & Curtis, Boston. Price by amendment. **Proceeds**—To improve its plants and to reimburse its treasury for funds invested in new subsidiary, American Pulp & Paper Co., Filer City, Mich.

Americana Furniture, Inc. (1/5-48)
Oct. 23 filed 100,000 shares of 6% cumulative convertible preferred (par $5) and 100,000 shares (10¢ par) common and an additional 285,000 shares common issuable upon conversion of preferred and exercise of 35,000 common stock warrants to be sold to underwriters. **Underwriters**—Gearhart & Co., Inc., New York; Herbert W. Schaefer & Co., Baltimore, Md., and Comstock & Co., Chicago. **Offering**—To be offered publicly in units of one share of preferred and one share of common. **Price**—$5.10 per unit. **Proceeds**—To finance completion of its factory and for working capital.

American Insurance Co., Newark, N. J. (12/23)
Nov. 14 filed 662,504 shares of capital stock (par $2.50). **Underwriter**—The First Boston Corp. **Offering**—Offered for subscription by stockholders of record Dec. 1, on basis of one new share for each two shares held. Rights expire Dec. 22. **Price**—$13 per share. Unsubscribed shares to be publicly offered by underwriters. **Proceeds**—To be used for capital funds.

American & Overseas Development Corp., N. Y.
Nov. 18 (letter of notification) $125,000 5-year 5% convertible subordinate debentures. **Price**—Par. **Underwriting**—None. Working capital and day-to-day operating expenses.

• Apex Smelting Co., Chicago
Dec. 1 (letter of notification) 11,111 shares ($10 par) common. **Price**—$27 a share. No underwriting. To purchase certain assets from National Smelting Co.

• Bluebook Associates, Inc., New York
Dec. 5 (letter of notification) 2,000 shares ($1 par) common, 2,000 shares ($100 par) preferred and 2,000 shares common to be issued to C. A. McGinnis in return for idea and plan for publication of Home Maker's Blue Book. **Price**—$101 per unit, consisting of one share of common and one share of preferred. No underwriting. For operation of business.

Brown & Bigelow, St. Paul, Minn. (12/16)
Nov. 19 filed 1,038,207 shares of common stock (after split-up of 10-for-1). **Underwriter**—Otis & Co., Cleveland. **Proceeds**—874,562 shares of stock are being sold by Charles A. Ward and other stockholders who will receive the proceeds, and 163,645 shares are to be issued in exchange for outstanding shares of Quality Park Box Co., Inc.; Consolidated Printing Ink Co., and John Beissel Co. **Price**—$9.50 per share.

• California Union Insurance Co., San Francisco
Nov. 28 filed 99,700 shares of common stock (par $10). **Underwriter**—None. **Price**—$25 a share. **Proceeds**—For working capital. **Business**—Writes fire, automobile and other insurances.

Callaway Mills, LaGrange, Ga.
Aug. 28 filed 123,306 shares (no par) common. **Underwriting**—No underwriting. **Offering** — Shares will be offered only to those stockholders who exchanged their holdings of common for preferred in 1945. **Price**—$35 a share. **Proceeds**—For corporate purposes.

• Central Illinois Pub. Serv. Co., Springfield, Ill.
Dec. 8 filed $10,000,000 30-year first and refunding mortgage bonds, series B. **Underwriters**—To be determined by competitive bidding. Probable bidders include: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc.; Kidder, Peabody & Co., and Smith, Barney & Co. (jointly); Glore, Forgan & Co.; Lehman Brothers; Salomon Bros. & Hutzler; Kuhn, Loeb & Co. **Price**—To be determined by competitive bidding. **Proceeds**—To finance construction program. **Business**—Public Utility.

Central Maine Power Co.
Nov. 10 filed 160,000 shares ($10 par) common. **Underwriting**—To be determined by competitive bidding. On Dec. 8 only one bid, that of Blyth & Co., Inc. and Kidder, Peabody & Co. was submitted and was rejected by the company. They bid $13.75, less $1.75 underwriting commission. **Offering**—To be offered to 6% preferred and common stockholders for subscription on the basis of one-half share of new common for each preferred share and one-tenth share of new common for each common share held. Price by amendment. **Proceeds**—For construction and repayment of bank loans.

Central Power & Light Co. (12/15)
Nov. 21 filed $6,000,000 first mortgage bonds, series B, due 1977; and 40,000 shares ($100 par) cumulative preferred. Underwriting to be determined by competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc. (bonds only); The First Boston Corp.; Blyth & Co. and Harriman Ripley & Co. and Smith, Barney & Co. (jointly); Lehman Brothers and Glore, Forgan & Co. (jointly); Salomon Bros. & Hutzler. **Price**—By competitive bidding. **Proceeds**—For property additions and expenses. **Bids**—Bids for purchase of securities will be received up to 11:30 a.m. (CST) Dec. 15 at 20 N. Wacker Drive, Chicago, Ill.

Century Steel Corp., Hollydale, Calif.
Nov. 10 filed 4,000 shares ($100 par) common. No underwriting. **Price**—$100 a share. **Proceeds**—To purchase rolling mill, equipment and for working capital.

Cincinnati Gas & Electric Co.
Dec. 1 filed 204,000 shares ($8.50 par) common. No underwriting. **Offering**—To common stockholders on the basis of one new share for each 10 shares held. Price by amendment. **Proceeds**—To finance construction.

Cleveland (Ohio) Electric Illuminating Co.
Sept. 26 filed 254,989 shares (no par) preferred, series of 1947. **Underwriter** — Dillon, Read & Co., New York. **Offering**—To be offered share for share plus a cash adjustment for outstanding $4.50 preferred. Unexchanged shares of new preferred will be sold publicly. Price by amendment. **Proceeds**—To retire unexchanged shares of old preferred. Offering indefinitely postponed.

• Codman & Shurtleff Inc., Boston, Mass.
Dec. 8 (letter of unification) a maximum of $100,000 10-year 5% notes and 5,000 shares (no par) common. Purchasers of notes will receive 50 shares of common per $1,000 of notes. No underwriting. To pay taxes, debts and other working capital.

• Colorado Flexible Gear Co., Holly, Colo.
Dec. 5 (letter of notification) 2,500 shares ($100 par) 4% cumulative convertible preferred. **Price** — $100 a share. No underwriting as yet. For testing of timing device for internal combustion machines.

• Colorado Placers, Inc., Denver
Dec. 1 (letter of notification) 32,433 shares (25c par) capital stock being offered by officers of the company as a bonus concurrent with the offering of the issuer under letter of notification filed Aug. 1, 1946. No underwriting and no offering price.

Consumers Cooperative Assoc., Kansas City, Missouri
Oct. 16 filed $1,000,000 4% non-cumulative common stock ($25 par); $4,000,000 of 3½% certificates of indebtedness cumulative; and $1,000,000 of 1½% loan certificates cumulative. No underwriting. **Offering**—To the public. Common may be bought only by patrons and members. **Price**—At face amount. **Proceeds**—For acquisition of additional office and plant facilities.

• Consumers Heating Equipment Co., Philadelphia
Dec. 8 (letter of notification) 10,000 shares of capital stock (par $25). **Price**—$25. **Underwriting**—None, but 200 retail and wholesale fuel operators and dealers will be asked to subscribe for the stock. Working capital and acquisition of capital equipment.

Danielson Manufacturing Co., Danielson, Conn.
Dec. 1 (letter of notification) 20,000 shares ($10 par) preferred and 4,000 preferred stock option warrants. The preferred will be offered publicly at $10 a share and the warrants will be sold to the agent at 10 cents each. **Underwriter**—Coburn & Middlebrook, Hartford. For working capital.

• Dayton (Ohio) Power & Light Co.
Dec. 5 filed 170,000 shares ($7 par) common and $8,000,000 30-year first mortgage bonds. **Underwriting** — The common shares will not be underwritten but the bonds will be sold at competitive bidding. **Probable Bidders**—Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Blyth & Co., Inc. **Offering**—The common shares will be offered for subscription by stockholders on the basis of one share for each nine shares held. **Price**—Price of bonds will be determined by competitive bidding and price of the common will be supplied by amendment. **Proceeds**—To finance construction program.

• De Walt, Inc., Lancaster, Pa. (1/5/48)
Dec. 5 filed 110,000 shares ($2.50 par) common. **Underwriter**—Reynolds & Co., New York. **Price**—By amendment. **Proceeds**—Company is selling 20,000 shares and the remaining 90,000 shares will be offered by stockholders. The company will use its proceeds for plant construction and for working capital. **Business**—Manufacture of radial saws.

Dogpaw Gold Mines Ltd., Toronto
Oct. 22 filed 1,000,000 shares ($1 par) capital stock. **Underwriter**—Tellier & Co. **Price**—40¢ per share. **Proceeds**—To develop mining properties in Flint Lake locality of Ontario.

Doughboy Bottling Co., Pittsburgh, Pa.
Oct. 24 (letter of notification) 50,000 shares of 6% preferred ($5 par). **Price**—$5.75 a share. **Underwriter**—McLaughlin, MacAfee & Co., Pittsburgh, to acquire and equip a bottling plant.

• Eastern Industries, Inc., New Haven, Conn.
Dec. 2 (letter of notification) 30,000 shares (50c par) common. **Price** — $2.50 a share. Being sold by Public Service Holding Corp., Wilmington, Del. To be sold through registered brokers and dealers.

Electric Steam Sterlizing Co., Inc., N. Y.
Sept. 22 (letter of notification) 65,000 shares of common stock (par 10¢). **Price**—65 cents per share. **Underwriter**—Reich & Co., New York. Purchase of inventory, etc.

Elliott Co., Jeannette, Pa. (12/18-19)
Nov. 20 filed 60,000 shares ($50 par) 5% convertible cumulative preference stock. **Underwriter**—F. Eberstadt & Co., Inc., New York. Price by amendment. **Proceeds**—For construction and expansion program, retirement of demand note, working capital.

Fidelity Corp. of Michigan, Grand Rapids, Mich.
Nov. 26 (letter of notification) $150,000 6% long term notes and $150,000 5% short term notes. To be sold at face amount. No underwriting. To reduce indebtedness and to carry on business.

• Fidelity Electric Co., Inc., Lancaster, Pa. (12/17)
Dec. 9 (letter of notification) 30,000 shares of class B common stock. **Price**—$1.25 per share. **Underwriters**—S. D. Fuller & Co., Dunne & Co., James D. Cleland Co., Vermilye Brothers, all of New York, and Harold H. Huston & Co., Seattle. Proceeds to selling stockholders.

Firemen's Insurance Co., Newark, N. J. (12/17)
Nov. 12 filed 120,462 shares ($5 par) common. **Underwriter**—Blyth & Co., Inc., New York. **Offering**—Shares are offered to stockholders of record Dec. 3 on basis of two shares for each 31 shares held. Rights expire 3 p.m. (EST) Dec. 16. Unsubscribed shares will be offered publicly. **Proceeds**—To be added to company's capital and surplus.

First Guardian Securities Corp., New York
Nov. 26 filed 36,000 shares ($25 par) 5% cumulative convertible preferred and 100,000 shares ($1 par) common. Underwriting to be filed by amendment. **Price**—$25 a preferred share and $10 a common share. **Proceeds**—For investment.

NEW ISSUE CALENDAR

December 12, 1947

Frigidinners Inc.____Common

December 15, 1947

Central Power & Light Co.
11:30 a.m. (CST)____Bonds and Pref.
Indianapolis Power & Light Co.____Preferred
Permanente Cement Co.____Common

December 16, 1947

Brown & Bigelow____Common
International Great Northern RR.
Noon (CST)____Equip. Trust Ctfs.
Missouri Pacific RR.
Noon (CST)____Equip. Trust Ctfs.
New York Central RR.____Equip. Trust Ctfs.
Northern Natural Gas Co., 11 a.m. (EST)_Common

December 17, 1947

Fidelity Electric Co., Inc.____Cl. B Common
Firemen's Insurance Co.____Common
Northern Indiana Public Service Co.____Preferred
Reading Tube Co.____Pref. and Common

December 18, 1947

American Box Board Co.____Common
Elliott Co.____Preferred
Nationwide Home Equipment Corp.__Capital Stock
Sunray Oil Corp.____Debentures and Pref.

December 23, 1947

American Insurance Co.____Capital Stock

January 5, 1948

Americana Furniture, Inc.____Pref. and Common
De Walt, Inc.____Common

Fischer Baking Co., Newark, N. J.
Nov. 17 (letter of notification) $299,000 5% cumulative non-voting preferred. **Price**—$100 per share. No underwriters. To refinance a part of corporate obligations and improve employee and employer relations.

Fraser Products Co., Detroit, Mich.
Oct. 21 filed 100,000 shares ($1 par) common. **Underwriters** — Campbell, McCarty & Co., and Keane & Co., both Detroit. **Price**—$7 a share. **Proceeds**—The shares are being sold by 14 stockholders who will receive proceeds.

● **Frigidinners, Inc., Philadelphia (12/12)**
Dec. 4 (letter of notification) 75,000 shares ($2 par) common and 15,000 shares of common reserved for issuance upon exercise of warrants. **Price**—$2 a share. **Underwriter**—Woodcock, McLear & Co., Philadelphia. To pay off loan and for working capital.

Gabriel Co., Cleveland
Oct. 24 (letter of notification) 10,000 shares ($1 par) common, on behalf of Wm. H. Miller, a director of the company, to be sold at market. **Underwriter**—Sills, Minton & Co., Chicago. Indefinitely postponed.

● **Gamble-Skogmo, Inc., Minneapolis**
Dec. 4 (letter of notification) 2,000 shares of ($5 par) common. To be sold at market through Carl M. Loeb, Rhoades & Co., New York, as principal underwriter.

General Instrument Corp.
Nov. 14 filed 150,000 shares of common (par $1). **Underwriter**—Burr & Co., Inc., New York. **Proceeds**—Stock being sold by four stockholders who will receive proceeds. Price by amendment. Expected early in January.

Gerity-Michigan Corp., Adrian, Mich.
Sept. 29 filed 40,049 shares ($1 par) common. **Underwriter**—Ames, Emerich & Co., Inc. and Dempsey & Co. Price based on market: $10-$10.50 per share. **Proceeds**—The shares are being sold for the account of James Gerity, Jr., company President.

Greenwich Gas Co., Greenwich, Conn.
Nov. 25 (letter of notification) 7,333 shares (no par) common. To stockholders at $14 a share. No underwriting. To pay construction loans.

Gulf States Utilities Co., Baton Rouge, La.
Nov. 13 filed 272,852 shares (no par) common. No underwriting. **Offering**—To be offered to common stockholders of record Dec. 16 on the basis of one new share for each seven held. Rights expire Jan. 7, 1948. Price by amendment. Company also plans to sell privately 50,000 shares ($100 par) preferred $4.50 series. **Proceeds**—For new construction.

Guyana Mines, Ltd., Toronto, Canada
Nov. 26 filed 303,587 shares ($1 par) common. **Underwriting**—None. **Price**—50 cents a share. **Proceeds**—For equipment and working capital.

Hawaiian-Philippine Co., Manila, P. I.
Sept. 24 filed 500,000 shares 7% cumulative preferred, par 10 Philippines pesos per share (currency basis one peso equivalent to 50 cents). **Underwriting**—No underwriting. **Offering**—For subscription by common stockholders on the basis of one share for each 1¼ shares owned. **Price**—$5 a share. **Proceeds**—For rehabilitation program.

Hayward Milling Co., Los Angeles
Nov. 24 (letter of notification) $301,200 2% unsecured bonds and 66,560 shares ($1 par) capital stock. **Price**—$77.50 per $100 principal amount of bond and $1 per share of stock. No underwriting. To purchase sawmill and for working capital.

Hickok Manufacturing Co., Inc., Rochester, New York
Sept. 19 filed 200,000 shares ($1 par) common. **Underwriter**—E. H. Rollins & Sons, Inc., New York. **Price**—By amendment. **Proceeds**—The shares are being sold by 36 stockholders who will receive proceeds. Offering postponed indefinitely.

Hilo (Hawaii) Electric Light Co.
Oct. 27 filed 25,000 shares ($20 par) common. **Underwriting** — None. Unsubscribed shares will be sold at auction after Dec. 22, when subscription warrants expire. **Offering**—For subscription to common stockholders on the basis of one share for each two held. Price at par. **Proceeds**—To repay bank loans and finance construction.

● **Hotel Keystone Corp., Pittsburgh, Pa.**
Dec. 5 (letter of notification) 10,000 shares (no par) common at $7 each. No underwriting. For alterations andi mprovements on premises of Hotel Keystone.

Illinois-Rockford Corp., Chicago
July 24 filed 120,000 shares ($1 par) common. **Underwriters**—Brailsford & Co., and Straus & Blosser, Chicago. **Price**—$9.25 a share. **Proceeds**—The shares are being sold by four stockholders and represent part of the stock the sellers will receive in exchange for their holdings of four furniture companies to be merged with the registrant. The merging companies are Toccoa Manufacturing Co. and Stickley Brothers, Inc., both Illinois corporations, and the Luce Corp. and Stickley Bros. Institutional Furniture Co., both Michigan corporations. Indefinitely postponed.

Indianapolis Power & Light Co. (12/15)
Oct. 9 filed 40,000 shares ($100 par) cumulative preferred. **Underwriters**—Names by competitive bidding. Probable bidders: Lehman Brothers; Blyth & Co., Inc.; W. C. Langley & Co.; Shields & Co., and White, Weld & Co. (jointly); Otis & Co. **Proceeds**—For new construction purposes. **Bids**—Bids for purchase of stock will be received up to noon Dec. 15 at office of Simpson, Thacher & Bartlett, 120 Broadway, New York.

Interstate Department Stores, Inc.
Oct. 30 filed $5,000,000 15-year sinking fund debentures. **Underwriter**—Lehman Brothers, New York. Price to be filed by amendment. **Proceeds**—To repay bank loans and for general corporate purposes including the financing of new stores. Temporarily postponed.

Interstate Power Co., Dubuque, Iowa
May 13 filed $19,400,000 of first mortgage bonds, due 1977, and 2,132,223 shares ($3.50 par) capital stock. **Proceeds**—For debt retirement, finance new construction and for working capital. Bonds awarded Sept. 24 to Halsey, Stuart & Co. Inc. on bid of 101.90 for a 3½% coupon rate. Stock awarded Sept. 24 on bid of $4.05 per share to Lehman Brothers, Goldman, Sachs & Co. and Wertheim & Co. The SEC on Sept. 25 rejected the bid for the stock. The SEC in its decision declared the price offered for the stock "would not effectuate a reorganization plan which would be fair and equitable to the persons effected thereby." The SEC's action also held up the sale of the bonds.

Johnson Automatics, Inc., Boston
Oct. 10 (letter of notification) 95,000 shares of common. To be sold at market. **Underwriter**—George F. Breen, New York. For additional working capital. Issue will be placed privately.

Johnson Bronze Co., New Castle, Pa.
Nov. 10 filed 300,000 shares common stock (par 50¢). **Underwriter**—Lee Higginson Corp. **Proceeds** — Stock being sold for account of certain stockholders.

● **Kansas Soya Products Co., Inc., Emporia, Kans.**
Dec. 3 (letter of notification) 3,157 shares ($95 par) preferred. **Price**—$95 a share. **Undewriter**—Kenneth Van Sickle, Inc., Emporia. For additional working capital.

● **Lewis and Smith Drug Co., Inc., Omaha, Neb.**
Dec. 1 (letter of notification) $50,000 of 10% 10-year debenture bonds. **Price**—$500 per unit. No underwriting. For expansion of retail drug enterprise.

Laurel (Md.) Harness Racing Association, Inc.
Oct. 23 filed $490,000 10-year 6% cumulative income debentures and 49,000 shares (1¢ par) common. No underwriting. **Price**—$1,001 per unit, consisting of $1,000 of debentures and 100 shares of common. Of the above $146,000 debentures and 14,600 common shares will be held by agent until lapse of escrow agreement. **Proceeds**—Proceeds will be put in escrow and will not be used before definite dates for a meet have been assigned to the association by the Maryland Racing Commission. Registration statement effective Nov. 20.

Legend Gold Mines, Ltd., Toronto, Canada
June 27 filed 300,000 shares ($1 par) common treasury stock. **Underwriting** — To be supplied by amendment. **Price**—50 cents a share. **Proceeds**—To develop mining properties.

● **Livingston Mines, Inc., Seattle, Wash.**
Dec. 1 (letter of notification) 200,000 shares (5c par) stock and $50,000 of 6% promissory notes. **Price**—5 cents a stock share and notes will be sold at face amount. **Underwriting**—Lobe, Inc.; A. M. Lind; and Gerry Moore, all of Seattle, Wash. For general corporate purposes.

Lock Nut Corp. of America
Oct. 6 (letter of notification) 24,000 shares of 5% cumulative convertible preferred stock (par $12.50). **Underwriter**—Ray T. Haas, Chicago. **Price**—$12.50 per share. General corporate purposes.

Louproco Realties, Inc., Louisville, Ky.
Nov. 26 (letter of notification) $182,500 of 10-year first mortgage refunding 6% bonds, due 1958. To be sold at face amount. **Underwriter**—The Bankers Bond Co., Inc., Louisville, Ky. To refund a like amount of bonds due Dec. 31, 1947.

Lowenstein & Sons, Inc., New York
Nov. 26 filed 20,000 shares ($1 par) common. **Underwriting**—None. **Offering**—Shares are being offered to certain officers and employees under an "employees stock option plan." **Price**—$21 a share. **Proceeds**—To be added to working capital.

Manhattan Coil Corp., Atlanta, Ga.
May 20 filed $500,000 5% serial debentures, due 1949-1957; 12,000 shares ($25 par) 5½% cumulative convertible preferred and 85,000 shares ($1 par) common. **Underwriter**—Kirchofer & Arnold, Inc., Raleigh, N. C. **Price**—The debentures at 102.507, while the preferred shares will be offered at par and the common shares at $4 each. **Proceeds**—To retire bank indebtedness and to finance purchase of machinery and other plant equipment.

Manufacturers & Jobbers Finance Corp., Shelby, N. C.
Nov. 25 (letter of notification) 1,500 shares ($100 par) 5% preferred and 10,000 shares ($10 par) class B common. **Price**—$100 a preferred share and $15 a common share. No underwriting. For additional working capital.

● **Martinez-Bell Mining Co., Superior, Ariz.**
Dec. 3 (letter of notification) 22,900 shares of common. **Price**—$1 a share. No underwriting. For development of mining properties.

McKay Davis Inc., Toledo, O.
Nov. 17 (letter of notification) 28,000 shares (10 par) 5% cumulative preferred and 20,000 shares (no par) common. To be sold in units of seven shares of preferred and five shares of common for $75 per unit. **Underwriter**—Clair S. Hall & Co., Cincinnati, O. For working capital and general corporate purposes.

● **Melchoir, Armstrong, Dessau Co. of Delaware, Inc., Ridgefield, N. J.**
Dec. 4 (letter of notification) 2,500 shares (no par) common. **Price**—$8.50 a share. No underwriting. For working capital.

● **Middle East Research Bureau, Inc., Washington, D. C.**
Dec. 8 (letter of notification) 400 shares of preferred. **Price**—$100 a share. No underwriting. For research and industrial development.

Middle States Telephone Co. of Illinois, Chicago
Nov. 7 (letter of notification) 13,125 shares of common. No underwriting. For additions and replacements to its property.

Monsanto Chemical Co., St. Louis
Nov. 28 filed 250,000 shares (no par) $4 dividend cumulative preference stock, series B. **Underwriter**—Smith, Barney & Co., New York. Price to be filed by amendment. Proceeds for general corporate purposes including financing new plant construction and additions to present facilities. Offering postponed due to market conditions.

Nationwide Home Equipment Corp., New Haven, Conn. (12/18)
Nov. 19 (letter of notification) 100,000 shares of capital stock (par $1). **Price**—$2⅝ per share. **Underwriter**—Henry P. Rosenfeld Co., New York. **Proceeds** — For expansion. **Business** — Company sells furniture, household appliances, etc., at retail.

North American Oil Co., Baltimore, Md.
Nov. 7 (letter of notification) 25,000 shares of common. **Price**—90 cents a share. **Underwriter**—Henry White & Co., Baltimore, Md. For payment and development of mining lease.

Northern Indiana Public Service Co. (12/17)
Oct. 29 filed 272,694 shares ($20 par) cumulative preference stock. **Underwriters**—Central Republic Co. Inc., Chicago; The First Boston Corp., and Blyth & Co. Inc., New York. **Offering**—For subscription by common stockholders of record Dec. 2 on basis of one preferred share for each eight common shares held. Rights expire Dec. 16. Unsubscribed shares will be offered publicly. **Price**—$21 a share. **Proceeds**—To improve its public utility system.

Northern Natural Gas Co. (12/16)
Nov. 14 filed 710,500 shares of common stock (par $10). **Underwriters**—To be sold through competitive bidding. Probable bidders: Blyth & Co., Inc.; Dillon, Read & Co.

(Continued on page 42)

(Continued from page 41)

Inc. **Proceeds**—Shares being sold by North American Light & Power Co. **Bids**—North American Light & Power Co. will receive bids at Room 2004, 60 Broadway, New York, up to 11 a.m. (EST) Dec. 16, for the purchase of the stock.

Ocean Downs Racing Association, Inc., Berlin, Md.
Nov. 28 filed 34,900 shares ($10 par) common. No underwriting. **Price** — $10 a share. **Proceeds**—To build trotting and pacing race track near Ocean City, Md.

Permanente Cement Co., Oakland, Calif. (12/15-19)
Nov. 24 filed 150,000 shares of common stock (par $1) **Underwriters**—Dean Witter & Co., and Schwabacher & Co., San Francisco. Price by amendment. **Proceeds**—To reduce bank loans and for working capital.

Peter Paul, Inc., Naugatuck, Conn.
Nov. 6 (letter of notification) 11,955 shares (no par) common, to be offered for subscription at $25 a share to present stockholders. No underwriting. For expansion and working capital.

Pittsburgh Steel Co.
Nov. 20 filed $6,500,000 of first mortgage bonds, due 1967. **Underwriters**—Kuhn, Loeb & Co.; A. G. Becker & Co., Inc. and Hemphill, Noyes & Co. Price by amendment. **Proceeds** — To refund outstanding first mortgage bonds. Expected after Jan. 2, 1948.

• **Portland (Ore.) Plywood Corp.**
Dec. 3 (letter of notification) 30,000 shares ($10 par) 5% cumulative preferred. **Price**—$10 a share. No underwriting. For purchase of machinery and equipment and for working capital.

Public Service Co. of New Hampshire
Nov. 25 filed 139,739 shares ($10 par) common and $3,000,000 30-year series C first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: The First Boston Corp., Coffin & Burr, Inc. (jointly); Kidder, Peabody & Co. and Blyth & Co., Inc. (jointly); W. C. Langley & Co. and Glore, Forgan & Co. (jointly); Halsey, Stuart & Co. Inc. (bonds only); Kuhn, Loeb & Co., Harriman Ripley & Co. and Smith, Barney & Co. (jointly). **Offering**—Common stock first will be offered for subscription to present shareholders at the rate of one share for each five shares held. Unsubscribed shares and the bonds will be offered publicly. Price to be determined by competitive bidding. **Proceeds**—To pay off loans and for construction purposes.

Publix Shirt Corp., New York
Oct. 3 filed 140,000 shares ($1 par) common. **Underwriter**—Reynolds & Co., New York. Price by amendment. **Proceeds** — The shares are being sold by three stockholders who will receive proceeds. Offering indefinite.

Reading (Pa.) Tube Co. (12/17)
Oct. 28 filed 200,000 shares (no par) 50¢ cumulative class A and participating stock, 50,000 shares (10¢ par) class B stock, and 50,000 shares class B stock issuable upon redemption of the class A stock. **Underwriter**—Aetna Securities Corp., New York. **Offering**—Class A stock will be offered publicly at $6 and class B stock will be sold to underwriters for investment at 10¢ per share. **Proceeds**—To pay bank loans. Statement effective Nov. 19.

• **Reliance Electric & Engineering Co., Cleveland**
Dec. 2 (letter of notification) 4,279 shares ($5 par) common. To be offered to salaried employees at market price. No underwriting. To be added to working capital.

• **Roy Jackson, Inc., New York**
Dec. 3 (letter of notification) 1,000 shares ($100 par) 7% preferred. **Price**—$100 a share. No underwriting. For business expansion and working capital.

• **Ruberoid Co.**
Dec. 5 (letter of notification) $240,000 promissory notes, series C, D and E ($80,000 each series), all dated Jan. 2, 1948 and due monthly Jan. 1, 1952. Issued to Mannington Mills, Inc., at face amount.

St. Regis Paper Co., New York
Nov. 26 filed 300,000 shares ($5 par) common. **Underwriting**—No underwriting. To be offered on New York Stock Exchange. **Price**—At market. **Proceeds**—Shares are being sold by Weco Corp., a wholly-owned subsidiary of Western Electric Co.

Silver Buckle Mining Co., Wallace, Idaho
Oct. 13 (letter of notification) 1,500,000 shares of (10c par) stock. **Price**—20 cents a share. **Underwriters**—F. E. Scott, Pennaluna & Co., J. E. Scott and Morris George, all of Wallace, Idaho, and John Erickson and Harold Gribble, both of Mullan, Idaho. For mine development.

Silverore Mines, Inc., Wallace, Idaho
Oct. 28 (letter of notification) 1,345,000 shares of common. Company is selling 1,000,000 of the total and the balance is being sold by four stockholders. **Price**—15¢ a share. The company will offer the securities directly with the aid of L. E. Nicholls & Co. and W. T. Anderson, both of Spokane, Wash., as underwriters. The company will use its proceeds for mining operations.

South Carolina Electric & Gas Co., Columbia, S. C.
Dec. 2 filed 80,858 shares ($50 par) cumulative convertible preferred and 404,293 shares ($4.50 par) common for sale, and 687,293 shares reserved for conversion of preferred. **Underwriter**—Kidder, Peabody & Co., New York. **Offering**—Shares initially will be offered for subscription by company's common stockholders, the preferred on a 1-for-10 basis and the common on a 1-for-2 basis. Unsubscribed shares will be offered publicly. Price by amendment. **Proceeds**—Proceeds together with other funds will be used to purchase all of the outstanding common of South Carolina Power Co. from the Commonwealth & Southern Corp.

• **Southern Acid & Sulphur Co., Inc., Richmond, Virginia**
Dec. 4 (letter of notification) 6,464 shares of common. **Price**—$40 a share. To be initially offered to stockholders and employees and then to the public. **Underwriter**—Hill Bros., St. Louis. For working capital.

Southwestern Gas & Elec. Co.
Nov. 5 filed $7,000,000 30-year first mortgage bonds, series B. **Underwriting**—To be determined at competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., Lehman Brothers and Lazard Freres & Co. (jointly); White, Weld & Co. and Kidder, Peabody & Co. (jointly); Blyth & Co., Inc. and Stone & Webster Securities Corp. (jointly); Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Harriman, Ripley & Co. **Proceeds**—To finance construction program. Expected early in January.

Steam Motive Power, Inc., Mishawaka, Ind.
Nov. 14 (letter of notification) 60,000 shares ($1 par) class A common. **Price**—$5 a share. **Underwriters**—Harrison & Austin, Inc.; Ferron R. Davis, Inc.; and Herbert S. Wolff Securities Co., all of South Bend, Inc. To organize business and for working capital.

• **Sterling Engine Co.**
Nov. 25 (letter of notification) 5,000 shares of common (par $1). **Price** at market. **Underwriter**—A. G. Becker & Co. Proceeds to Chairman of board.

• **Stock Options, Inc., New York**
Dec. 4 (letter of notification) 2,996 shares ($100 par) common. **Price**—$100 a share. No underwriting. For working capital.

Strong Manufacturing Co., Sebring, Ohio
Nov. 12 (letter of notification) 3,674 shares (no par) common. **Price**—$10 a share. **Underwriter** — Gunn, Carey and Co., Cleveland. For operating expenses.

Sunray Oil Corp. (12/18)
Nov. 12 filed $40,000,000 20-year 3½% sinking fund debentures and 250,000 shares 5% cumulative convertible second preferred stock, series of 1947 (par $100). **Underwriters**—Eastman, Dillon & Co. heads a group of underwriters. **Purpose**—To financing merger of Pacific Western Oil Corp. and Mission Corp. into Sunray.

• **Thermoid Co., Trenton, N. J.**
Dec. 4 (letter of notification) 30,000 shares ($1 par) common. **Price**—$10 per share. **Underwriter**—Blyth & Co., Inc., New York. To replenish working capital.

Thomascolor Inc., Los Angeles
July 9 filed 1,000,000 shares ($5 par) class A common. **Underwriter**—Paul J. Herold, New York. **Price**—$10 a share. **Proceeds**—To purchase production facilites and for working capital.

Thornton Lumber Co., Ravalli, Mont.
Oct. 27 (letter of notification) 1,152 shares ($100 par) common and 1,848 shares ($100 par) 6% cumulative preferred. To be sold at par. **Underwriter**—L. A. Donahue, Billings, Mont. For payment of liabilities and construction of mill.

• **Tri State Acceptance Corp., Cincinnati**
Dec. 3 (letter of notification 6,000 shares ($25 par) common. **Price**—$25 a share. No underwriting. For working capital.

• **Van Dyke Taxi & Transfer, Inc., Buffalo, N. Y.**
Dec. 4 (letter of notification) 996 shares ($10 par) common. **Price**—$10 a share. No underwriting. For additional working capital.

• **Wallace (R.) & Sons Mfg. Co., Wallingford, Conn.**
Dec. 4 (leter of notification) 12,000 shares ($25 par) common. **Price**—$25 a share. No underwriting. For additional working capital.

Washington (D. C.) Gas Light Co.
Nov. 7 filed 85,000 shares (no par) common. No underwriting. **Offering**—The shares will be offered for subscription to common stockholders of record Dec. 26 on the basis of one share for each five held. Subscription warrants will expire Jan. 13, 1948. Dealer-Managers—New York area, The First Boston Corp.; Washington area, Alex. Brown & Sons. **Price**—$20 per share. **Proceeds**—To be added to general funds for current construction program.

White Motor Co., Cleveland, O.
Oct. 28 filed 275,000 shares ($1 par) stock. **Underwriter**—Hornblower & Weeks, New York. **Offering**—Proposed offering postponed indefinitely according to an announcement Nov. 17.

• **Wilton (Conn.) Arms, Inc.**
Dec. 2 (letter of notification) 747 shares ($100 par) capitol stock on behalf of Dorothea D. Hubbard, of Wilton. To be offered at not more than $100 a share. Adrian H. Miller & Son, New York, Auctioneer.

Wisconsin Central Airlines, Clintonville, Wis.
Nov. 18 filed 125,000 shares ($1 par) common. **Underwriter**—Loewi & Co. **Price**—$4 a share. **Proceeds**—To purchase aircraft, repay notes and for working capital.

Prospective Offerings

• **Armstrong Cork Co.**
Dec. 5 rumored company has under consideration the offering to stockholders early in January about $8,500,000 of preferred stock with Smith, Barney & Co. as underwriter.

• **Birmingham Gas Co.**
Dec. 9 company, a subsidiary of Federal Water & Gas Corp., requested the SEC for permission to sell $1,000,000 first mortgage 3½% bonds due 1971, privately to Northwestern Mutual Life Insurance Co. **Proceeds**—For construction expenditures.

• **Equitable Office Building Corp.**
Dec. 4 J. Donald Duncan, trustee, mailed to stockholders warrants entitling them to purchase at $1 1⅕ shares of new common stock for each share now held. Warrants will expire on Dec. 24 and it is expected that the reorganization will be consummated by Dec. 29. The offering has been underwritten by a group headed by Wertheim & Co.

• **International Great Northern RR. (12/16)**
The trustee is inviting bids to be considered (noon—CST) Dec. 16, at St. Louis, for the purchase of $2,496,000 equipment trust certificates, series AA, dated Dec. 15, 1947 and due $312,000 each Dec. 15, 1948-1955. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler.

• **International Harvester Co.**
Jan. 28 stockholders will vote on authorizing $100,000,000 convertible debentures. Probable underwriters: Glore, Forgan & Co.; Harris Hall & Co. (Inc.), and William Blair & Co.

• **Michigan Consolidated Gas Co.**
Dec. 5 reported company contemplates sale of $9,000,000 bonds. Proceeds for construction. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; Dillon, Read & Co. Inc.

• **Missouri Pacific RR. (12/16)**
The trustee is inviting bids to be considered Dec. 16, at noon (CST) Dec. 16, for the purchase of $5,248,000 equipment trust certificates, series JJ, dated Dec. 15, 1947 and due $656,000 Dec. 15, 1948-1955. Probable bidders: Harris, Hall & Co. (Inc.); Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

• **New York Central RR. (12/17)**
Company has issued invitations for bids to be considered Dec. 17 for $12,800,000 equipment trust certificates, to be dated Jan. 15, 1948, and to mature serially from Jan. 15, 1949 to Jan. 15, 1958. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; The First Boston Corp.

• **Ohio Power Co.**
Dec. 10 reported company has plans under consideration for sale early in 1948 of $28,000,000—$30,000,000 bonds for new money purposes. Probable bidders: Dillon, Read & Co. Inc.; First Boston Corp.; Halsey, Stuart & Co. Inc.

• **Philadelphia Electric Co.**
Dec. 4 rumored company contemplates sale of same $35,000,000 of bonds to finance its construction program. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Glore, Forgan & Co., and W. C. Langley & Co. (jointly); The First Boston Corp.; White, Weld & Co.

• **Potomac Edison Co.**
Dec. 5 company asked SEC for permission to sell at competitive bidding $4,000,000 30-year first mortgage collateral trust bonds; also 50,000 shares of common stock to West Penn Electric Co. (parent). Proceeds for property improvement. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc.

• **Southwestern Public Service Co.**
Dec. 8 company expects to register with SEC in near future $3,000,000 of preferred and common stock, but has no definite plans as yet. Dillon, Read & Co. Inc. probable underwriter.

• **Tampa Electric Co.**
Dec. 9 reported company has under consideration plans for sale of approximately $6,000,000 in new bonds early in January. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; White, Weld & Co.; Kidder, Peabody & Co.

Compares Bond Yields And Living Costs

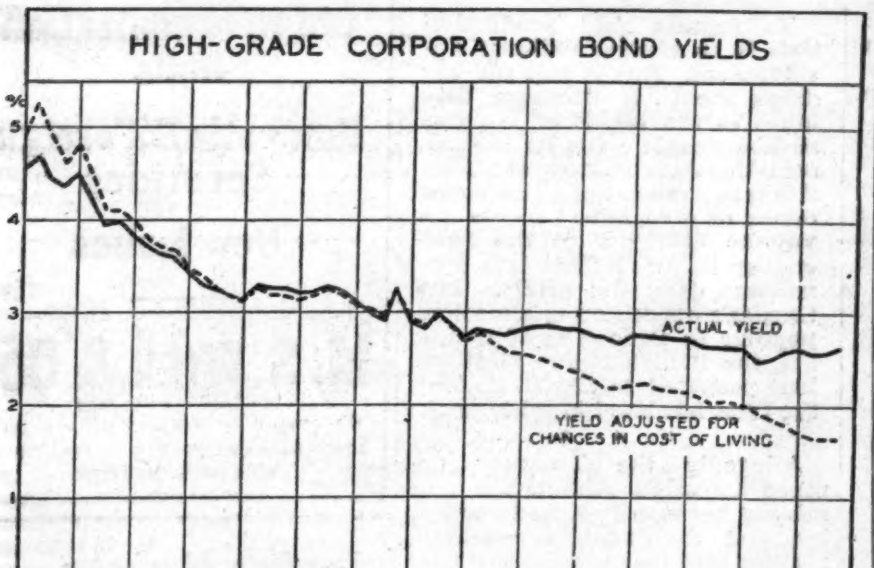
In the current issue of the "Business Bulletin," published by the Cleveland Trust Company of Ohio, a comparison is made of bond yields and living costs over last 15 years. According to the "Business Bulletin":

"Bond yields have been rising, and in general they are appreciably higher than the lows reached in the first part of 1946. On the other hand, the purchasing power of the income from bonds has been decreasing because of the rise in living costs. For the most part, the higher yields on bonds bought today are more than offset by the decline in the purchasing power of bond income.

"The diagram illustrates this point as to high-grade corporation bonds, for which the trend of yields is available for many years back. The solid line is the Moody series of the average yield of representative high-grade corporation bonds. In the broken line, the yield has ben adjusted for changes in the cost of living as measured by the consumers' price index of the Bureau of Labor Statistics. The base period, or 100, for the latter is the five-year average for 1935-39. The data are plotted at quarterly intervals for the past 15 years, beginning with December of 1932.

"In December, 1932, the average yield on high-grade corporate bonds was 4.59%. This was about in line with the average for all of the prior years as far back as 1900. During those years the average monthly yield never dropped below 4%, and during and after World War I it ranged from 5 to 6% or even higher. But the pattern changed in the period covered by the diagram, and since the middle of 1934 the yield has never been as high as 4%. The long decline in bond yields after 1932 began during the era of abnormally easy credit which existed throughout most of the 1930's. Then came the war period, when interest rates were tightly controlled by the Federal authorities under the policy of maintaining low interest charges on the government debt—a policy which still exists.

"The downtrend in bond yields has been accompanied by an increasingly severe decline in the purchasing power of bond income, as shown on the diagram. For illustration, we shall assume that an investment of $1,000 in high-grade corporate bonds was made at the end of 1941; that a second investment of $1,000 was made in March, 1946, when bond yields were about at their lows; and that a third investment in the same amount was made in September of 1947. Based on the Moody yield series, the actual annual return on the first investment would have been $28; on the second, $24.70; and on the third, $26.20. However, if we adjust the yields for changes in the cost of living index, using the 1935-39 average as the base period for the latter, we find that the purchasing power of the income from the first investment would be $25.30; from the second, $19, and from the third investment, $16.20."



Our Reporter's Report

The behavior of the new issue market this week tends to bear out the recent observations of some bankers that corporate finance officers would do well to forego abnormally large-scale operations and seek funds needed through one or more smaller offerings.

Certainly the reception accorded the several new undertakings brought out in the last few days contrasted with the sluggishness attending more than a couple of the relatively recent huge emissions.

Dealers reported the ready sale of the three bond issues which came out for Cleveland Electric Illuminating Co., Georgia Power Co. and Delaware Power & Light Co. the first for $20,000,000 and the last two for $10,000,000 each.

So. Calif. Edison Preferred

The group which took up Southern California Edison's 800,000 shares of new $25 par preferred stock apparently realized this piece of business was not destined to prove a "quickie." The issue was reported moving but not quite so sprightly as the several bond issues.

But the investor response was reported to be satisfactory with early clearing up of the unsold balance expected. With two groups competing the successful syndicate paid the company a price of $25.05 for a $1.22 dividend rate and reoffered the issue at $26.25.

The runner-up offered the company a price of $25.02 for a $1.25 dividend.

Single Bid Rejected

That underwriters still are inclined to be "gunshy" with regard to equity issues was indicated in the case of Central Maine Power Co.'s efforts to dispose of a block of junior shares.

This company receiveed a total of five separate bids for an offering of $4,000,000 of new bonds, but its companion issue of 160,000 new common shares, attracted only a single tender offering a price of $13.75 a share less underwriting compensation of $1.75 a share.

The bulk of this issue was to be offered first to holders of its outstanding stock. The bid was rejected and the stock end of the deal put over temporarily at least.

Monsanto Defers Sale

Presumably influenced by the recent unsatisfactory performance of the market generally, Monsanto Chemical Co., is reported to have decided to postpone for a while, the sale of 250,000 shares of new $4 cumulative preference stock Series B.

A negotiated undertaking, it could very likely go over for several weeks, possibly until after the turn of the year.

Sunray Oil Financing

Next Thursday, Dec. 18, is now the day tentatively set for marketing of new securities projected by Sunray Oil Corp., as part of the three-way merger now held up temporarily by litigation.

This undertaking probably will stand as one of the largest of the closing month of the year, if the way finally is cleared for carrying out of the consolidating Mission Oil Corp and Pacific Western Oil into the company.

DIVIDEND NOTICES

Allied Chemical & Dye Corporation
61 Broadway, New York

December 5, 1947

Allied Chemical & Dye Corporation has declared a special dividend of Three Dollars ($3.00) per share on the Common Stock of the Company, payable December 27, 1947, to common stockholders of record at the close of business December 15, 1947.

W. C. KING, *Secretary*

ALLIS-CHALMERS MFG. CO.

STATEMENT OF EARNINGS

Allis-Chalmers Manufacturing Company has released an earnings statement for the twelve months period October 1, 1946 to September 30, 1947, showing net sales billed of $172,567,020 and a profit after taxes of $2,570,548.

Copies of said statement are available to the Company's security holders and to other interested parties and may be obtained from the Company or from Guaranty Trust Company, 140 Broadway, New York 15, N. Y., its Transfer Agent, and City Bank Farmers Trust Company, 22 William Street, New York 15, N. Y., Trustee, under Indenture dated as of September 1, 1946, as well as other sources.

W. E. HAWKINSON,
Secretary and Treasurer.

SITUATION WANTED

TRADER

Wishes position to give service and execute orders in over-the-counter securities. Box M124, Commercial & Financial Chronicle, 25 Park Place, New York 8, N. Y.

DIVIDEND NOTICES

CALUMET AND HECLA CONSOLIDATED COPPER COMPANY
DIVIDEND NO. 61

A dividend of twenty cents ($0.20) per share will be paid on December 26, 1947, to holders of the outstanding Capital Stock of the Calumet and Hecla Consolidated Copper Company of record at the close of business December 11, 1947. Checks will be mailed from the Old Colony Trust Company, Boston, Massachusetts.

J. H. ELLIOTT, Secretary

Boston, Mass., December 2, 1947

OFFICE OF LOUISVILLE GAS AND ELECTRIC COMPANY

The Board of Directors of Louisville Gas and Electric Company (Delaware) at a meeting held on December 4, 1947, declared a quarterly dividend of thirty-seven and one-half cents (37½c) per share on the Class A Common Stock of the Company for the quarter ending November 30, 1947, payable by check January 20, 1947, to stockholders of record as of the close of business December 15, 1947.

At the same meeting a dividend of twenty-five cents (25c) per share was declared on the Class B Common Stock of the Company, for the quarter ending November 30, 1947, payable by check January 20, 1947, to stockholders of record as of the close of business December 15, 1947.

G. W. KNOUREK, Treasurer.

United States Plywood Corporation

Weldwood

For the quarter ended October 31, 1947, a cash dividend of 25c per share (an increase from 20c to 25c), and an extra dividend of 50c per share on the outstanding common stock of this corporation have been declared payable January 20th, 1948, to stockholders of record at the close of business January 10, 1948.

SIMON OTTINGER, Secretary.
New York, N. Y., December 3, 1947.

Exide BATTERIES

THE ELECTRIC STORAGE BATTERY COMPANY

189th Consecutive Quarterly Dividend

The Directors have declared from the Accumulated Surplus of the Company a final dividend for the year 1947 of seventy five cents ($.75) per share on the Common Stock, payable December 31, 1947, to stockholders of record at the close of business on December 15, 1947. Checks will be mailed.

H. C. ALLAN,
Secretary and Treasurer

Philadelphia 32, December 5, 1947.

THE ATLANTIC REFINING CO.

PREFERRED DIVIDENDS

At a meeting of the Board of Directors held December 3, 1947, a dividend of one dollar ($1) per share was declared on the Cumulative Preferred Stock Convertible 4% Series A of the Company, payable February 2, 1948, to stockholders of record at the close of business January 5, 1948.

At the same meeting a dividend of ninety-three and three-fourths cents ($.9375) per share was declared on the Cumulative Preferred Stock 3.75% Series B of the Company, payable February 2, 1948, to stockholders of record at the close of business January 5, 1948.

Checks will be mailed.

RICHARD ROLLINS
Secretary

December 3, 1947.

DIVIDEND NOTICES

WESTERN TABLET & STATIONERY CORPORATION

Notice is hereby given that a dividend at the rate of $.50 per share on the issued and outstanding shares without par value of the Common Stock of Western Tablet & Stationery Corporation has been declared payable on January 10, 1948, to the holders of record of such shares at the close of business on December 22, 1947.

E. H. BACH, Treasurer.

WICHITA RIVER OIL CORPORATION

Dividend No. 7

A dividend of Twenty-five cents (25¢) per share will be paid January 15, 1948 on the Common Stock of the Corporation, to stockholders of record at the close of business December 31, 1947.

JOSEPH L. MARTIN, *Treasurer*

December 5, 1947.

New York & Honduras Rosario Mining Company
120 Broadway, New York 5, N. Y.

December 10, 1947.

DIVIDEND NO. 381

The Board of Directors of this Company, at a meeting held this day, declared a dividend of Fifty Cents ($0.50) per share on the outstanding capital stock, payable on January 5, 1948, to stockholders of record at the close of business on December 26, 1947. This distribution represents the final dividend in respect of earnings for the year 1947.

WILLIAM C. LANGLEY, Treasurer.

THE TEXAS COMPANY

181st Consecutive Dividend paid by The Texas Company and its predecessor.

A dividend of 75¢ per share or three per cent (3%) on par value of the shares of The Texas Company has been declared this day, payable on January 2, 1948, to stockholders of record as shown by the books of the company at the close of business on December 5, 1947. The stock transfer books will remain open.

L. H. LINDEMAN
Treasurer

November 21, 1947

TIP-TOP

WARD BAKING COMPANY

★ DIVIDENDS ★

The Board of Directors declared the quarterly dividend of $1.37½ a share on Preferred Stock payable January 2, 1948 to holders of record December 12, 1947 and a Year End dividend of 90 cents a share on the Common Stock payable December 27, 1947 to holders of record December 12, 1947.

475 Fifth Avenue
New York 17, N. Y.

L. T. MELLY,
Treasurer

RKO

RADIO-KEITH-ORPHEUM CORPORATION

THE Board of Directors has declared a dividend of 15 cents per share on the Common Stock of the Corporation payable on January 2, 1948 to stockholders of record at the close of business on December 15, 1947.

J. MILLER WALKER
Secretary

December 4, 1947

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

Somebody ought to tip off Harry Truman that Marriner Eccles now means to promote some deflation if the Congress gives him a chance.

Presidents, like newspaper men, can't watch everything. But if the President realized it, Mr. Eccles told the Banking Committee of the Senate that were he given the power to require commercial banks to establish secondary reserves, he would use it. He would use this power, Mr. Eccles said, to offset the inflationary influence of gold imports. Furthermore, he would use it to restrict the volume of bank credit to about the present level, "on balance."

* * *

Mr. Truman wanted to talk about controlling inflation, for political purposes. There is no sign, however, that he or his advisors wanted to take that one little step necessary to end inflation—the promotion of just a little bit of deflation. They are too afraid of that. But Mr. Eccles feels differently. He isn't afraid of anybody, unless maybe it is a bunch of politicians who might seriously threaten to raise interest rates.

* * *

Mr. Eccles' proposition of holding bank credit down to about the present level very easily might promote just a little deflation. To the Administration, that would be about like a slight case of cholera, unless the blame could be put upon what Mr. Eccles calls the "vested interests," the nation's bankers. For it is pretty generally agreed among the think boys in government that bank credit is rising mostly in response to inflationary forces. It takes more dollars to stock a warehouse full of parts because the parts cost more. And you've got to have a bigger warehouse, because your sales volume is on the up. You finance this business with loans.

* * *

Just pull the wheel of bank credit off the old business machine, and things really would begin to happen. Business volume would drop. What really would hurt is that banks might slow down on these nothing down and 25 years to pay home loans. Then all thunderation would burst about the President. So Mr. Truman at least ought to know about it.

* * *

The Congress is most unlikely, however, to give Mr. Eccles the authority to require a new batch of reserves. Congress shows no signs of going for this one. Power or no power, however, Marriner Eccles remains a character unique by himself in the Washington panorama.

* * *

Eccles appeared on the Washington scene to testify before a Congressional committee in 1934, and was discovered to be a real live banker-business man who believed in compensatory spending. The Roosevelt Administration was just so tickled to catch a banker who believed in spending. Also he could dress spending up in the cutest economic lingo. So it hired him at once. First he was a special assistant to the Secretary of the Treasury. Then in November 1934 he became a member of the Federal Reserve Board and has been there since.

* * *

Probably Mr. Eccles would vehemently deny that he distrusted the operations of the market place. But there is probably no more of a thorough-going managed economy gent somewhere near the top of the heap right now than Governor Eccles. His economy-managing philosophy, however, is slanted to the compensatory spending religion with an admixture of central banking theologics.

* * *

Mr. Truman, however, does not love the managed economy for itself. He finds himself awkwardly trying to manage the economy because those who put him in office want it managed for specific utilitarian purposes. But Mr. Eccles has not been within the inner circle since the late President Roosevelt died. Thus he first learned, as he honestly testified the other day, that the President was thinking about bank credit doing something or other in this anti-inflation thing, when Mr. Eccles got a telephone call from the White House.

* * *

Mr. Eccles quickly took the secondary reserve thing from the shelf, where it had lain since 1945. All the prior appearances indicated that until Mr. Eccles got that telephone call showing that the White House, after all, had not forgotten him, he never dreamed of pushing this plan this year. Now he has gone all out for it, including a promise to use the power if he got it. In fact, his anxiety for the power was so great that Congress reacted like the sweet young thing faced with the too aggressive suitor.

* * *

It was not all Eccles' fault, however, that the secondary reserve plan is going back to gather dust. Part of the fault was one of those "vested interest" spokesmen, Bob Fleming of the Federal Advisory Council. Fleming may have guessed that the Senate Banking committee was weary of these tightly-knit, abstract arguments of the type which Governor Eccles always submits to committee. Fleming didn't try to bombard the committee with the Advisory Council's statement. In fact it was reluctantly (supposedly) dragged from him. He just talked a few points of economic sense. And it hit. The committee was impressed.

* * *

Then Mr. Eccles came up. He wanted to submit a long statement before discussing credit control generally. Chairman Tobey asked him please not to, as Mr. Tobey confessed that he got confused by these statements. So Tobey and the FR Board were to get together at the luncheon table at the latter's expense, to talk the whole thing over. Mr. Eccles' impugning the personal motives of the Federal Advisory Council also definitely fell flat.

* * *

Mr. Eccles usually gets attention for the things he says which business does not like, such as the present program for bank credit restriction. Nevertheless, within some limits, Eccles is a consistent compensatory spending philosopher. He was one of the first to call for the end of deficit financing when it began to appear that the depression would not last forever. While it took no political courage with a term of office until 1958, he lambasted most soundly the GI and other easy mortgage money business. No Republican currently talks louder for government economy. Mr. Eccles would even allow business to make great profits if there were danger, in his view, that sources of capital were drying up.

* * *

His big fanaticism is low interest rates. Try to ask him why interest rates shouldn't rise, and he sounds like someone who reasons from the premise that the earth revolves about the moon, rather than the moon about the earth, and the two around the sun. Congressmen, however, are developing a clearer perception of the astronomical realities. There is a growing sentiment in Congress that interest rates must rise if there ever is to be an end to inflation. This sentiment has not yet crystallized, or been organized by any group.

* * *

This may be Eccles' last coming out of eclipse. His admonitions on economic matters contrary to Administration political interests are little noticed, and are not held against him. Should an Administration come into power with a philosophy antagonistic to that sincerely believed by Mr. Eccles, it is a good bet he would go back to Utah. He might go sooner, it is guessed, if he got stopped cold in all his efforts to arrest inflation as he sees it.

* * *

Gold to Canada is not merely gold. Likewise it is not just a commodty which can be shipped to meet an exchange deficit. Gold is the key to opening the Canadian northland, Canada's vast, largely unexploited, national frontier. When gold is developed in Canada, other mines come, also business and people. Thus gold in a limited way is what wheat was to the early West.

* * *

To repress gold production thus is to repress national development. This is just the position the U. S. Treasury now takes in the minds of the Canadian people with its "representations" to Ottawa in opposition to payment of $7 on every ounce of gold mined above the volume achieved in the year ending in July. This is a Canadian domestic affair. Mr. Snyder's opposition is almost as popular in Canada as if in the 50s, the British Prime Minister had proposed to the U. S. that the West be closed to settlement.

* * *

Allegedly the Treasury opposes Canada's stimulating gold mining because it would have to buy and "neutralize" the gold. It may be also that the Federal conscience is repelled by the notion that gold is worth something more than $35 an ounce in terms of purchasing power. It is a cinch that if Canada drops the proposed subsidy on gold mining at U. S. behest, the Treasury will pay many more dollars than would go to buy the Canadian gold which otherwise would have been mined under a new postwar kind of "Hyde Park Agreement."

It would be easy to mistake the preliminary groping of the Congressional majority, now being reported in the dailies, as the final answer of the Republicans to Truman's request for broad inflation controls.

Disregarding minor points, this program of the GOP seems to have two main parts. One idea is to broaden export controls so that the Administration could curb and channel exports to any part of the world. Then the Administration would be charged in effect with holding down the overall total of exports to a level which would not impinge too severely on the domestic economy. In other words, it would have to fight inflation and the commies at the same time.

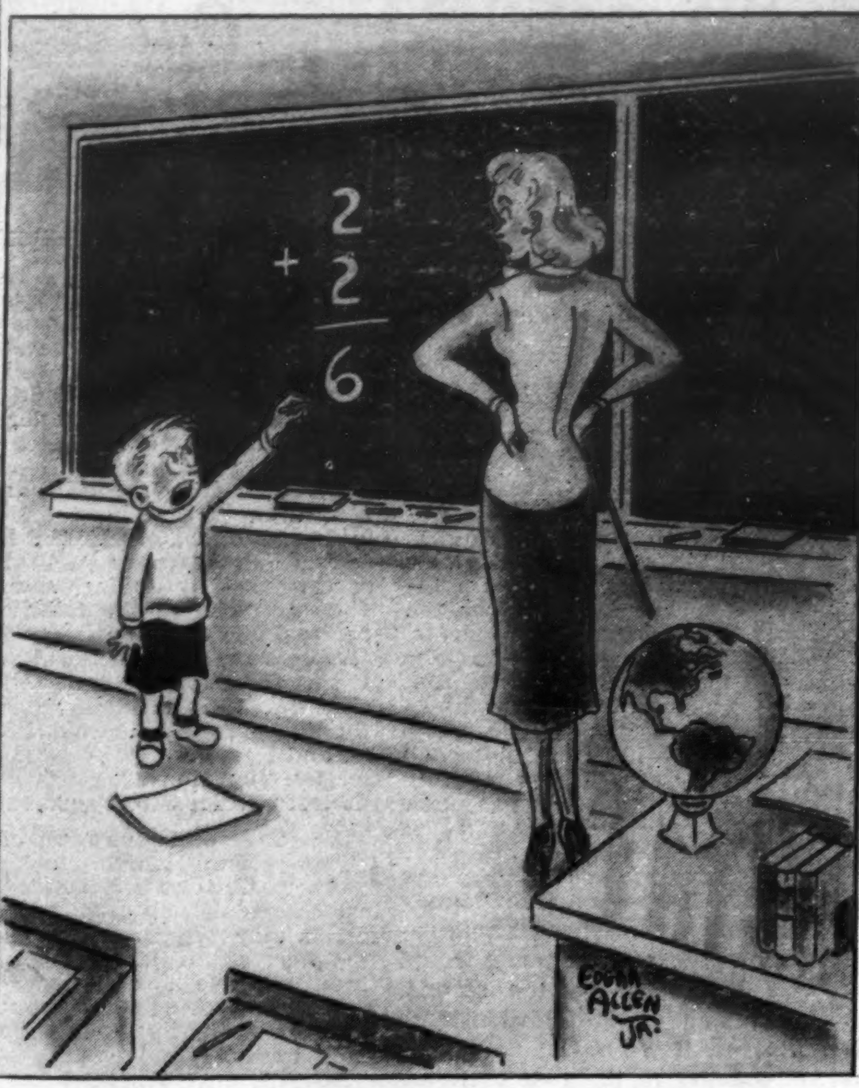
* * *

Under the second main proposal the Congress would open up wide the street to voluntary agreements within industry. Just how broad these agreements would be, hasn't been settled. These agreements would have the same objectives as the anti-inflation program — permit allocations, etc., in order to prevent inflation.

* * *

These have a nice tinsel look, like the President's own anti-inflation program. Under one part the President would have to limit exports so that the total effect of foreign aid would not be inflationary. Under the second part the President would have to "put up or shut up" on his allegation that he wants to try voluntary action before regimentation. However, the majority has not yet thought through its program carefully. Much could happen next year, even an unexpected turn in the business cycle. The danger of a downturn arises from the fact that the majority of government economists, who usually have guessed wrong on the big swings, see no end to good times.

BUSINESS BUZZ



"Wrong? Aint ya never heard of inflation!!"

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Annual Meeting and Buffet Supper

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Frederick M. Stern, *Stern & Co.*; Morris T. Sitkoff; Murrey Perlman, *S. K. Cahen & Co.*; Bill Eiger, *Hart Smith & Co.*

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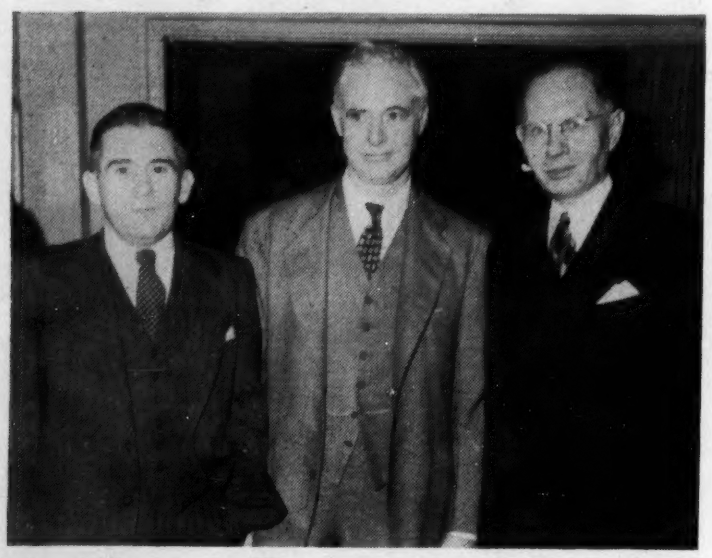

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Frank W. Aigeltinger, *Aigeltinger & Co.*; Gilbert Wehmann, *White, Weld & Co.*; Harry Arnold, *Paine, Webber, Jackson & Curtis;* George Hoffman, *Greene & Co.*

Held December 5th, 1947, at Produce Exchange

Dan McMillen, *F. H. Koller & Co.;* George Collins, *Geyer & Co., Inc.;* Charles O'Brien Murphy, *Merrill Lynch, Pierce, Fenner & Beane;* David Wittman, *Jacquin, Bliss & Stanley*

James R. Brewer, *Mackubin, Legg & Co.;* Willie Schmidt, *Laird, Bissell & Meeds;* Carroll Williams, *Laird, Bissell & Meeds;* Bob Beswick, *Laird, Bissel & Meeds;* Cliff Channell, *First Boston Corporation;* Nelson Strothmann, *A. M. Kidder & Co.*

Walter Kane, *Jos. McManus & Co.;* Sal Rappa, *F. S. Moseley & Co.;* Joe Kelly, *J. Arthur Warner & Co.;* Les Barbier, *G. A. Saxton & Co.*

Duke Hunter, *Aetna Securities Corporation;* Ray Kenney, *Kenney & Powell;* Bill Doherty, *A. M. Kidder & Co.;* E. Michael Growney, *Growney & Co.*

Geo. Leone, *Frank C. Masterson & Co.;* Phil Barmonde, *Seaver & Co.;* Jerry Aal, *Young, Aal & Golkin*

Edwin L. Beck, *Financial Chronicle;* Larry Wren, *Allen & Co.;* Elbridge H. Smith, *Stryker & Brown*

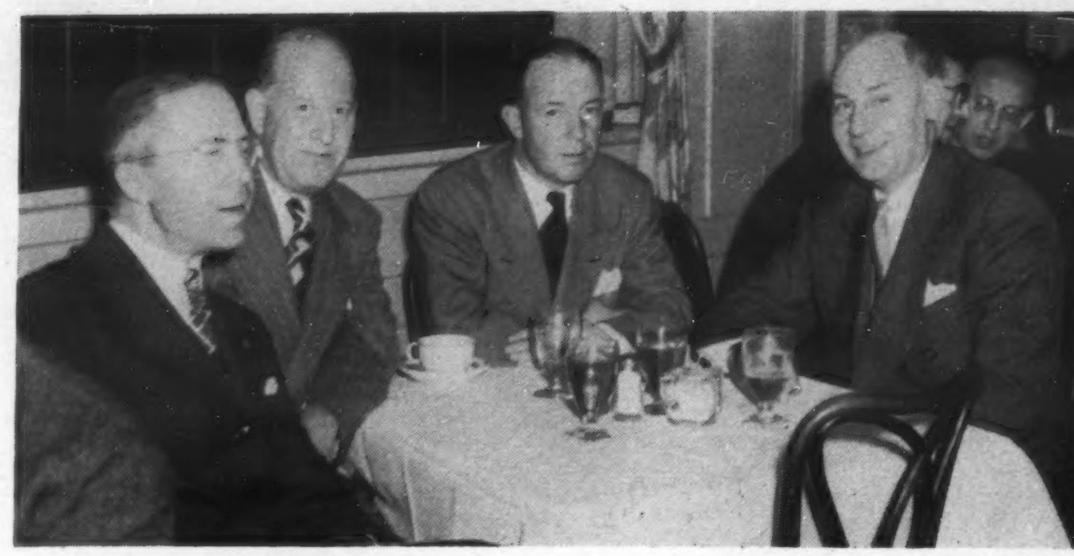
Nat Birnbaum, *Birnbaum & Co.;* Joe Goldenberg, *Ira Haupt & Co.;* Arthur Vare, *Hourwich & Co.*

(Hoy) Meyer, *Stern & Co.;* Ben Grody, *Herzog & Co.;* Julius D. Brown, *Hirsch & Co.;* Ed Jacobs, *Blair F. Claybaugh & Co.;* Alfred I. Abelow, *Mitchell & Co.*

W. F. Webster, *Hardy & Co.;* Howard Brown, *Ingalls & Snyder;* Dick Abbe, *Van Tuyl & Abbe;* Joseph McManus, *Jos. McManus & Co.*

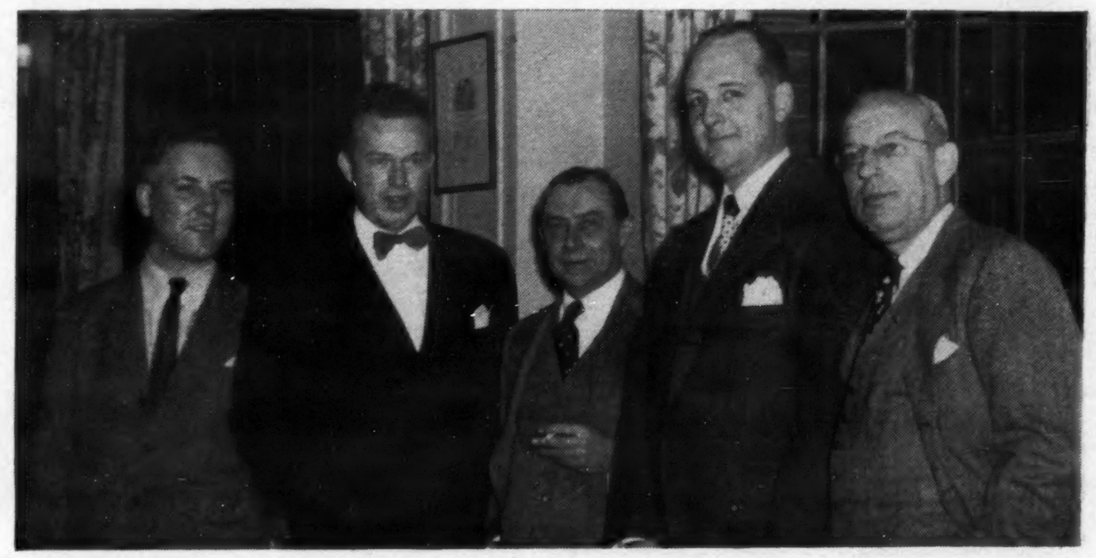
Well Attended by Membership

Donald Daly, *Maxwell, Marshall & Co.;* Joe Titolo, *Harris, Upham & Co.;* Herk Mottino, *Harris, Upham & Co.;* Bill Wittich, *Maxwell, Marshall & Co.;* Sam Magid, *Hill, Thompson & Co.*



Geo. Searight, *Aetna Securities Corp.;* Lester Gannon, *W. T. Bonn & Co.;* Bill Swords, *Newburger & Hano;* W. T. Bonn, *W. T. Bonn & Co.*

Bill McGivney, *Toerge & Schiffer;* Pete Steven, *Bond & Goodwin, Inc.;* Maurice Hart, *New York Hanseatic Corp.;* Al McGowan, *New York Hanseatic Corp.*



Bob Livingston, *L. J. Schultz & Co.;* Ed Whiting, *Kaiser & Co.;* Ed Sachs, *J. G. White & Co.;* Jack Rose, *Fitzgerald & Co.;* Charley Ogden, *Ogden, Wechsler & Co.*

Jim Cleaver, *Goodbody & Co.;* R. J. Petke, *Garvin, Bantel & Co.;* F. H. Koller, *F. H. Koller & Co.*

Joseph Janareli, *Janareli & Co.;* Bruce Briggs; Allan Kadell, *E. H. Rollins & Sons., Inc.*, New York; Jack Miller, *Amott, Baker & Co.*

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Leo Goldwater, *Goldwater & Frank;* Abe Strauss, *Strauss Bros., Inc.;* John MacLean, *Shearson Hammill & Co.;* Henry Byrne, *Hirsch & Co.*